

**U.S. ECONOMY, U.S. WORKERS, AND
IMMIGRATION REFORM (CONTINUED)**

HEARING
BEFORE THE
SUBCOMMITTEE ON IMMIGRATION,
CITIZENSHIP, REFUGEES, BORDER SECURITY,
AND INTERNATIONAL LAW
OF THE
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U.S. ECONOMY, U.S. WORKERS, AND IMMIGRATION REFORM (CONTINUED)

WEDNESDAY, MAY 9, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON IMMIGRATION, CITIZENSHIP,
REFUGEES, BORDER SECURITY, AND INTERNATIONAL LAW
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:10 a.m., in Room 2141, Rayburn House Office Building, the Honorable Zoe Lofgren (Chairwoman of the Subcommittee) presiding.

Present: Representatives Lofgren, Jackson Lee, Davis, Ellison, Conyers, King, Gallegly, Goodlatte, Lungren, Gohmert, and Smith.

Staff present: Ur Mendoza Jaddou, Chief Counsel; George Fishman, Minority Counsel; Andrea Loving, Minority Counsel; and Benjamin Staub, Professional Staff Member.

Ms. LOFGREN. This hearing of the Subcommittee on Immigration, Citizenship, Refugees, Border Security, and International Law will come to order.

This is the continuation of our hearing from last Thursday, scheduled at the request of our minority Members pursuant to Clause 2(j)(1) of House Rule XI to provide additional perspectives on the topic of the hearing. Our witnesses today have been chosen by the minority, and we look forward to hearing their testimony.

[The opening statement of Ms. Lofgren follows:]

PREPARED STATEMENT OF THE HONORABLE ZOE LOFGREN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRWOMAN, SUBCOMMITTEE ON IMMIGRATION, CITIZENSHIP, REFUGEES, BORDER SECURITY, AND INTERNATIONAL LAW

Pursuant to House Rule XI clause (2)(j)(1), the minority in the Subcommittee is entitled to,

[U]pon request to the chairman by a majority of them before the completion of the hearing, to call witnesses selected by the minority to testify with respect to that measure or matter during at least one day of hearing thereon.

Last week, the Subcommittee held a hearing on immigrants and the nation's economy. At the request of the Ranking Member and a majority of the minority on this Subcommittee, today the Immigration Subcommittee is holding a minority hearing to continue the discussion on the effects of immigrants on the nation's economy.

As I stated last week, some have raised concern that immigrant workers undermine the welfare of native-born workers by reducing wages and raising unemployment levels. Applying basic rules of supply and demand, this argument appears convincing - the more workers there are, the more competition there is for jobs, and hence a downward pressure on wages and fewer available jobs.

However, a majority of experts on this issue, as we heard in our hearing last week, have explained that this basic supply and demand argument is too simplistic to capture reality. The majority of the scholarship on this topic has indicated that

simple economic arguments of supply and demand fail to reflect the economic complexities of the real world of immigration. As we learned last week, immigrants don't just fill jobs; they also create them in various ways, thereby increasing demand for native-born workers and actually increasing their wages throughout most of the economy.

Our witnesses last week explained that there is some downward effect on wages at some levels. However, the weight of the scholarship shows that this effect is much smaller than some have argued, even as small 1.1%.

Now we turn our attention to the minority witnesses to provide their perspective.

Ms. LOFGREN. The Chair now recognizes the Ranking minority Member, Steve King, for his opening statement.

Mr. KING. Thank you, Madam Chair.

This hearing was called because the minority was denied a witness at last Thursday's hearing on the U.S. Economy, U.S. Workers and Immigration Reform. We invited two private-sector witnesses, and the majority publicized the witness list naming those witnesses. However, 2 days before the hearing, the majority dictated that one minority witness must be a Government witness.

The reality is that no Administration witness is going to testify to anything other than the Administration's view on immigration reform. In fact, I had a question that I was going to ask them, which was: Can you give us your personal opinion? The answer would have been no, and I decided not to embarrass them.

So that leaves those who disagree with the Administration's position with a tremendously small or nonexistent pool of Government witnesses, and the 1 day we had to try to find another witness made finding an available, out-of-town Government witness even more difficult.

So, after several attempts to resolve the situation through discussions with the majority, we were forced to disinvite one of the minority witnesses. And pursuant to House Rule XI, clause 2(j)(1), we requested a minority day of hearing.

Our first thought in seeking witnesses for this minority day of hearing was to give Mr. T. Willard Fair the opportunity to respond to the attacks leveled by Mr. Wade Henderson, a majority witness at last Thursday's hearing. Mr. Fair will discuss the impact of immigration on African-American workers, and his views are shaped in part by his position as President and CEO of the Urban League of Greater Miami. So I am pleased that Mr. Fair is with us today.

I am also pleased that Roy Beck, the Executive Director of NumbersUSA, is also here and that he is not holding against us the fact that we were forced to uninvite him last week.

And finally, I am pleased that Dr. Steve Camarota, director of research at the Center for Immigration Studies, is here to give us an economist's view of the issue.

The issue at hand is extremely important to the future of America. Importing millions of poorly educated foreign workers will not help our country. It will only hinder our growth.

When employers hire foreign workers who will work for less than American workers, Americans lose jobs. Currently, there are 69 million Americans who are working age who are simply not in the workforce and 6.9 million working illegal immigrants. We would only have to recruit one out of 10 Americans that are not in the workforce in order to replace the illegal labor in America.

The open-borders lobby's argument is that those people do not live in the place where the jobs are, but they forget that the illegal immigrants did not either.

So I would point out that at last Thursday's hearing, some of the witnesses argued that adding more people to the workforce helps raise wages, but that notion is contrary to the law of supply and demand. The bottom line is that when more people are willing to work for low wages, the wages go down. Any employer can tell you that.

That is why employers want amnesty for illegal aliens and a massive new guest worker program to import the world's poor because they can profit from that, and the American economy is like a ship with 300 million passengers and crew. The passengers do not contribute to the efficiency of the ship. It is the crew that does that. If we keep taking on more passengers and untrained crew, instead of putting more of our passengers to work, ultimately, this great ship, America, will sink, and it will sink into the depths of the Third World.

I also point out that we have had testimony here from Robert Rector of The Heritage Foundation in a very definitive study that identifies a net loss to the taxpayer of \$22,449 a year for every household on average that is headed by a high school dropout, and there has been no response to those statistics and that data. The response has been great silence.

So I appreciate the witnesses being in here, and I appreciate your testimony before this Committee, and I am hopeful that if there is not going to be another number that is going to be offered so that it can be scrutinized by our side of this argument that the concession will be made that you gentlemen are right.

I thank you, Madam Chair, and I yield back the balance of my time. I look forward to the testimony.

Ms. LOFGREN. We are pleased to be joined by the Chairman of the full Judiciary Committee today, and I would now recognize Chairman Conyers for any opening remarks that he may wish to make.

Mr. CONYERS. Thank you, Chairwoman Lofgren and Steve King and Mr. Gohmert and Mr. Smith and Mr. Lungren, our former attorney general from California.

I consider these hearings very, very important. Why? Because what we are trying to do now is to correct some problems that have happened across the years, and, of course, resolving old problems are a bit of a difficulty.

Now I come out of the civil rights movement, and Mr. Fair, I understand, does as well. And what we have to examine, I say to the witnesses, is how we deal with the problem of a fair amnesty reform and at the same time deal with the reality of minority unemployment in this country, of which there is way more than is reported. It is a very highly underreported statistic.

So can we do that? Can we do that without breaking up families? There is not a Member on the full Committee on Judiciary that does not want to promote family values and keeping families together. To do that within reason and bounds is a legitimate objective of the immigration reform package that we are at the present moment putting together.

We do not have a bill, so everything you say here is being examined for whether it can be included in what our final work product is. So what we are trying to say is that we need a re-examination of full employment. We would need full employment if there was not an immigration crisis.

I was one of those—and I was so proud that Coretta Scott King joined with me when we passed the Full Employment and Balance Growth Act, which was trying to deal with the reality.

Now I would like to see a situation where there is not some gross surplus of low-wage workers, unskilled workers, and the number of jobs available. What I would like to see is a reasonable distribution that I have not found anywhere in my train of logic to want to have a pool of unskilled workers, be they immigrant or be they native American. I want full employment as a legitimate goal, and for all of those witnesses here today that can help me, this would be very, very important.

Keep in mind African-Americans and Latinos, as minority groups in America, have a strong common interest in fairness and equal opportunity, economically and politically. And as the Leadership Conference on Civil Rights noted, the traditional civil rights movement was instrumental in eliminating discriminatory immigration quotas in the 1960's, and that is why, to me, civil rights organizations and their leaders need to speak out on behalf of crafting a fair bill.

Fairness undergirds my major approach to this huge problem that Chairman Lofgren and her Subcommittee have adjusted their sights to. They are holding more hearings than anybody else in the Committee and for good reason. There is a lot of work to be done, and we have to climb over a lot of misunderstandings that are out there.

Thank you, Madam Chairman.

Ms. LOFGREN. Thank you, Chairman Conyers.

[The prepared statement of Mr. Conyers follows:]

PREPARED STATEMENT OF THE HONORABLE JOHN CONYERS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN, AND CHAIRMAN, COMMITTEE ON THE JUDICIARY

A serious study of the immigration issue must include a thoughtful analysis of how foreign workers impact our native-born workers. We had such a hearing last week, and I am happy to hear from even more voices on this important issue.

Indeed, I join Wade Henderson and the Leadership Conference for Civil Rights in applauding the fact that so many people and groups are now expressing concern for the state of Black America, and specifically for our unemployed and underemployed young men.

We need to address these concerns without driving wedges among our communities. As Frederick Douglass stated in a prescient speech he gave in the wake of Emancipation, the question of immigration and race prerogative "should be settled upon higher principles than those of a cold and selfish expediency."

We cannot simply condemn immigration reform as being either against African-Americans or a disguised form of amnesty. We cannot walk away from the hard work that the American people expect from us—to achieve comprehensive balanced immigration reform.

We also cannot ignore the harsh realities that African-Americans have long faced in our Nation. We must continue to bring the Nation's attention to the long-lasting social and economic effects of slavery and segregation. These economic issues are the root cause of many critical issues in the African-American community today, such as education, healthcare and crime. We need to have a constructive dialogue on the role of slavery and racism in shaping present-day conditions in our community and American society.

As highlighted in a prior hearing, studies show that black men born in the late 1960s were, by the end of the 1990s, more likely to have prison records than either military records or college degrees. Even worse, those who were high-school dropouts had a nearly 60 percent chance of having served time in prison.

Nevertheless, the fact that African-Americans face challenges in our labor markets does not necessarily mean that immigrants are the cause of those problems. The scholarship on this issue is inconclusive, and studies that fail to take incarceration rates and education into account are of questionable value.

Even assuming for the moment that immigration does hurt some poor American communities—especially African-American communities and established Latino communities—what can we do to protect them?

Mr. Fair, in his written testimony, suggests that less immigration is more likely to help a young black man succeed as a carpenter or an ex-convict reintegrate into society. I believe, instead, these young men would have a better chance to succeed in an environment that promotes: a full employment policy; skills training; education; and transitional programs such as the Second Chance Act.

Rather than simply closing the door to immigration and hoping that things will get better for African-Americans, we should instead be asking ourselves what can be done to stimulate job growth and improve opportunities in Black communities across the Nation.

As one of our witnesses is from Miami, it is appropriate for us to note economist David Card's study on the impact of the 125,000 Cuban nationals who came to the United States during the Mariel boatlift. Although Miami's labor force increased by some 7 percent within a relatively short period of time, Mr. Card found that the Mariel immigration had virtually no impact on the wages or unemployment rates of less-skilled workers.

We should also keep in mind that African Americans and Latinos, as minority groups in America, share a strong common interest in fairness and equal opportunity. As the Leadership Conference on Civil Rights has noted, the traditional civil rights movement was instrumental in eliminating discriminatory immigration quotas in the 1960s. This is why leading civil rights organizations have continued to speak out on behalf of immigrants' rights since then. Balanced immigration reform should be premised on protections for native-born workers such as unemployment thresholds which limit temporary workers. It also should provide protections for immigrants such as access to unions, wage protections, and programs that do not create a permanent underclass. And, as I mentioned earlier, we need a full employment policy with an educational base and good wages. We must move away from the rhetoric of "impossibility" or "amnesty," and achieve a lasting solution to these problems.

Ms. LOFGREN. I now would recognize the Ranking Member of the full Committee, Mr. Smith, for any opening statement he would like to make.

Mr. SMITH. Thank you, Madam Chair.

This is an unusual but necessary hearing, as Mr. King pointed out, but I certainly do want to agree with the Chairman of the full Committee and the comments that he just made. He said that a surplus of unskilled workers basically does no one any good, whether they be immigrants or native workers, and I just absolutely concur with that statement, and I share his concerns that a surplus might well lead to greater unemployment among American workers.

Madam Chair, immigration has become the most complex and sensitive subject, I think, Congress faces today. It affects our economy, our culture, and our future. So it is critical that we have accurate facts if we are to properly address immigration reform. The late Carl Sagan said, "Better the hard truth than the comforting fantasy."

This Subcommittee has held hearings on a number of subjects. Regardless of the topic, one question always comes to my mind: Who will stand up for the American worker? And the answer is: We will, and we must.

Virtually all credible studies show that competition from cheap foreign labor displaces American workers, including legal immigrants, or depresses their wages. The Center for Immigration Studies found that low-skilled workers lose an average of \$1,800 a year because of competition from illegal immigrants for their jobs. That is a huge economic hit.

A study by Harvard Economist George Borjas shows that cheap immigrant labor has reduced the wages of American workers performing low-skilled jobs by over 7 percent, and it is instructive that the highest unemployment rates among Americans are in the construction and service industries to occupations with a high number of illegal immigrant workers.

The nearly 70 million Americans, who are unemployed or have given up looking for jobs, have a right to those jobs. We must put the interest of American workers ahead of foreign workers.

Today, we will hear testimony that all Americans are hurt by cheap foreign labor. Almost 20 percent of all Black Americans and 40 percent of Hispanics do not have a high school degree. These low-skilled legal workers are the ones who disproportionately must compete with foreign workers. They are the real victims of America's failed immigration policy. For proof, we have only to look at the effects of recent Federal immigration worksite enforcement actions.

After last year's worksite enforcement by the Bureau of Immigration and Customs Enforcement, Georgia's Crider lost over 600 illegal workers. Well, what happened? The *Wall Street Journal* reported, "For the first time since significant numbers of Latinos began arriving in Stillmore, the plant's processing lines were made up predominantly of African-Americans," and Crider continues to fill positions with legal workers.

Is that the expiration of my time, Madam Chair?

Ms. LOFGREN. I thought it was, but I think we messed up on the lights. So why don't you—

Mr. SMITH. Okay. I would be glad to take another 5 minutes, Madam Chair. [Laughter.]

Ms. LOFGREN. If you could conclude in 2 or 3, that would be perfect.

Mr. SMITH. Thank you.

All right. Let me repeat that last phrase. The *Wall Street Journal* reported what happened. "For the first time since significant numbers of Latinos began arriving in Stillmore in the late 1990's, the plant's processing lines were made up predominantly of African-Americans." Crider continues to fill positions with legal workers.

Some say there are jobs Americans will not do, but that demeans Americans who do work in every occupation. Any honest job is a worthy job. If we had to pay a few cents more for a head of lettuce or chicken at the grocery store in order to protect American jobs, we should be willing to do so. The American worker must come first.

Madam Chair, since I have another minute to go, let me mention another subject today, and I cannot avoid mentioning it because of what happened yesterday.

Six individuals were arrested on their way to Fort Dix. They were terrorists and they intended to “kill as many soldiers as possible,” and they had the assault weapons to do so. As I read it, three of the six individuals were in the country illegally. To my knowledge, based upon news reports, they did not have any criminal backgrounds.

These are the individuals who under the Administration and the Senate bill that are being considered would have become legalized. They might have become guest workers, or they might eventually have become citizens.

So what happened yesterday certainly should be a wakeup call. It certainly should have a dramatic impact on our immigration debate and, I hope, will certainly slow down the process of any consideration of amnesty or legalization for people who are in the country illegally.

Thank you, Madam Chair, and I will yield back the balance of my time.

Ms. LOFGREN. Thank you.

In view of the schedule and mindful that our witnesses are waiting, we will ask other Members to submit their opening statements for the record.

Without objection, the Chair is authorized to declare a recess of the hearing at any time.

Without objection, all opening statements will be placed in the record.

[The prepared statement of Ms. Jackson Lee follows:]

PREPARED STATEMENT OF THE HONORABLE SHEILA JACKSON LEE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS, AND MEMBER, SUBCOMMITTEE ON IMMIGRATION, CITIZENSHIP, REFUGEES, BORDER SECURITY, AND INTERNATIONAL LAW

Today marks the eighth hearing in a series of hearings dealing with comprehensive immigration reform. This subcommittee previously dealt with the shortfalls of the 1986 and 1996 immigration reforms, the difficulties employers face with employment verification and ways to improve the employment verification system. On Tuesday May 1, 2007 we explored the point system that the United Kingdom, Canada, Australia, and New Zealand utilize, and on May 3, 2007 the focus of the discussion was on the U.S. economy, U.S. workers and immigration reform. Yesterday May 8, 2007 we took a look at another controversial aspect of the immigration debate, family based immigration. Today's hearing is a continuation of the hearing we held on May 3, 2007.

At that hearing this past Thursday, May 3, 2007 the tone of the conversation turned “ugly” for lack of a better word. I remind my colleagues that these series of hearings that began at Ellis Island and will conclude at the end of this session are about finding the truth, dispelling the myths, and arriving at a consensus that is in the interest of first the American worker, the border, and our economy.

Working under the assumption that immigrants are a detriment and a strain on our economy, and further a detriment to the economic opportunities of young low-skilled blacks we invited a panel of experts to discuss this very issue.

Dr. Orzsag mentioned that more low skill workers mean more high skilled workers and low skill labor creates the need for more jobs in general. For example an attorney or a doctor may not have the time to mow his lawn, do his own dry cleaning, or make his own lunch. On the other hand a low skilled worker laboring on a farm means that there will be an urgent need to hire a driver to deliver the produce to the grocery store, and another individual who stocks the product in the grocery store. Likewise common sense dictates that the same groups of workers make obvious contributions to our economy when they buy groceries, clothes, gas, and other living essentials.

With regards to this “perception” that illegal immigration is having a particularly adverse effect on the job opportunities of young black men allow me to reiterate the following. That argument is in part a disingenuous argument. It does not take into account the fact that since the passage of the Civil Rights Act of 1964 our nation

has seen a growing black middle class. Quite frankly, I agree with Wade Henderson. I will not allow ignorance and divisiveness into this discussion about immigration.

However, I understand the concerns of gentleman like T. Willard Fair, and I address these issues in my immigration legislation the SAVE America Comprehensive Immigration Act of 2007.

Let me take a brief moment to describe how my legislation, the SAVE America Comprehensive Immigration Act of 2007 addresses this shortage of workers. Section 703 of the SAVE Act, entitled "Recruitment of American Workers," mandates the following.

First of all any employer that files a petition on behalf of a foreign born employee will have to file an affidavit that illustrates their efforts to recruit a lawful permanent resident (LPR) or a United States Citizen (USC), and an emphasis will be placed on attempts to recruit employees from minority communities. Recruitment efforts in minority communities can include advertisements in local newspapers in the labor market where these workers patronize for at least 5 days, advertisements in public transportation systems, and recruitment activities in secondary schools, recreation centers, community centers, and other places throughout the communities within 50 miles of the job site that serve minorities.

The SAVE Act also mandates a 10% surcharge on all fees collected for petitions to accord employment based status. These funds would then be used to create an employment training program with the purpose of increasing the number of available LPR's and USC's in the occupations that are the subjects of these petitions. Likewise, 50% of the funds will be used to train workers in rural and inner city areas.

Finally a portion of the proceeds will also be used to establish an "Office to Preserve American Jobs" at the Department of Labor. The purpose of this office is to establish policies that encourage American employers to hire American workers before resorting to foreign workers.

In conclusion I say to this distinguished panel that those of us in the majority put the American people first, and we will continue to do so. The notion that we would do otherwise is simply not true.

[The prepared statement of Mr. Gallegly follows:]

PREPARED STATEMENT OF THE HONORABLE ELTON GALLEGLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND MEMBER, SUBCOMMITTEE ON IMMIGRATION, CITIZENSHIP, REFUGEES, BORDER SECURITY, AND INTERNATIONAL LAW

Mr. King, thank you for holding this hearing. It is important that we have a serious discussion about how illegal immigration has affected American workers.

It defies common sense to argue that the presence of *at least* 12 million illegal workers has not negatively affected the unemployment rate, wages, and working conditions for legal American workers.

A study by the Center for Immigration Studies found that between 2000 and 2005, the number of new male immigrant workers increased by 1.9 million. At the same time, the number of employed unskilled American workers declined by 1.7 million.

The conclusion is inescapable.

The problem will be even worse if we grant amnesty to illegal workers. If every one of the estimated 12 million illegal immigrants sponsors two (2) additional immigrants each, which is a very conservative number—the U.S. will have at least 24 million new immigrants coming to this country under amnesty over the next 10 years. That number will not include those who will continue to violate the law and cross our borders, figuring that eventually Congress will grant them yet another amnesty.

The new immigrants will not just be competing for jobs, but for housing, health care, education, and other services. It defies belief that an additional 24 million people—again, in addition to the 12 million already here—many of whom will not speak English and will have few job skills, will not have a serious, negative impact on our economy, our workforce, our schools, our hospitals, and our communities.

In addition, there is no doubt that adding a minimum of 24 million people to our population will have negative consequences for our environment, our traffic problems, and our overall quality of life.

Mr. King, I would like to place a copy of the Center for Immigration Studies report I mentioned, *The Impact of New Immigrants on Young Native-Born Workers, 2000-2005*, into the record.

Thank you again for holding this hearing. I look forward to hearing from our witnesses.

I yield back the balance of my time.

Ms. LOFGREN. We have three witnesses before us today.

First, we have Roy Beck, the founder and Executive Director of NumbersUSA Education and Research Foundation. Mr. Beck is author of the book, *The Case Against Immigration*. He is a graduate of the University of Missouri School of Journalism.

Next, we have Steven A. Camarota, Director of Research at the Center for Immigration Studies in Washington, D.C. He holds a Ph.D. from the University of Virginia in public policy analysis and a master's degree in political science from the University of Pennsylvania.

Finally, we will hear from Mr. T. Willard Fair, President and Chief Executive Officer of the Urban League of Greater Miami. Mr. Fair has served as an adjunct professor at the Atlanta University School of Social Work, Bethune-Cookman College, Florida International University and the National Urban League's Whitney M. Young, Jr. Center for Urban Leadership. He earned his B.A. in sociology from Johnson C. Smith University and an M.S.W from the Atlanta University School of Social Work.

Your written testimonies will be made part of the record in their entirety.

I think you saw the little light system we have here. Each of you will be asked to summarize your written testimony in about 5 minutes. When the yellow light goes on, it means you have a minute left, and it is always surprising when you are a witness because the time really does fly.

When the red light goes on, it means your time is up, as surprising as that may be, and we would ask you to try and conclude. We do not have a heavy gavel, but we would ask if you would conclude so we can get to the next witness and then to the questions.

So, if we can begin, if we could start, Mr. Fair.

**TESTIMONY OF T. WILLARD FAIR, PRESIDENT,
MIAMI URBAN LEAGUE**

Mr. FAIR. Thank you, and good morning. To members of the panel, it is a pleasure for me to have the opportunity to speak to you this morning on an issue that is important not only to me, but to my constituency group in Miami.

For the last 40-plus years, I have been attempting to make sure that young Black men in Liberty City have the tools that they need in order to be productive citizens in Miami-Dade County. We have worked at that, and I suggest to you that the status of young Black males around this country is of such a significant nature of deterioration that all of us should be concerned.

We know, based on everything that we have read by all of the experts, that the issues that face them, that keep them from becoming productive citizens are many and complex, from family composition to incarceration to attitudes to beliefs to the last vestiges of racism being practiced. Those things surround them on a day-to-day basis.

I would not suggest to you that those things are the only things, nor would I suggest to you that illegal immigration or legal immigration is a primary reason for the creation of those things, but when we have the discussion about the variables that make them

unable to achieve their highest aspirations, we never talk about the impact of mass immigration on that, and I suggest to you that Miami is the best laboratory for you to look at as we talk about the impact of legal versus illegal immigration on the ability of Black Americans to ascend to the heights of their aspirations.

When I came to Miami 40-plus years ago, there were certain things in place that gave you some understanding about the importance of Black Americans to the economy, to the vitality of that city. One of my favorite observations is where did they go because when I came to Miami, all of the hotel, motel, restaurant jobs in Miami were occupied by African-Americans. Today, that is flipped. That is neither good nor bad nor is that condemning anybody who has the jobs, but the issue becomes what happened to all of those people who had those jobs?

When I came to Miami 40 years ago, the construction industry primarily was made up of laborers who came from Liberty City. It is not by accident, but should have been predicted that the first persons that fell off the high scaffolds in Miami involved in construction were not people from Liberty City, but were Haitians, because, once again, those jobs that used to be held by African-Americans are now held by others, legal or illegal. The numbers have impacted adversely on the ability of Blacks in Miami to get jobs.

This does not mean that one wants to blame immigration, but one certainly has to understand the effect of mass immigration on those set of circumstances. When one digs down deep into that whole process, one then begins to understand that if you talk about a form of amnesty that is going to put an additional 12-million-plus people into that system, I mean, you create other sets of problems that are already in place.

So, when we begin to talk about the issue and its impact on Black America, academicians, researchers all have demonstrated very clearly by their research that it does occur. What disturbs me, for example, is we talk to economists, we talk about supply and demand, and we know that it is going to impact on us adversely, and finally, we may admit that it does, but when we talk about that it does, we talk about it impacts modestly. Well modestly may mean one thing to you as an academician, but if it is you in reality, then it is significant. It is no longer modest.

So all of the experts agree that illegal versus legal, legal versus illegal has an impact on the ability of African-Americans to get jobs. But we began to switch it off and say that it does not.

We also have this whole notion that we can allow certain people to come in to the system, create jobs, and as they take over certain jobs, they will then, by virtue of their numbers, create other jobs in the industry. Well, that does not work in Miami because what happens is that if you take over all of the jobs picking lettuce, the notion is that you are able to pick lettuce cheaper and, therefore, you can get it to the market faster. You get it to the market faster. Therefore, you can get more people to buy it. Then what happens is that—

Ms. LOFGREN. Mr. Fair, your red light is on. If you—

Mr. FAIR. My red light?

Ms. LOFGREN. Yes. If you could just, you know, wrap up, I do not want to cut you off in the middle of your sentence.

Mr. FAIR. What happens then is that if those who are in place to get the new jobs are not people that look like me, then it works. But the lettuce pickers then become the cashiers, then become the foremen, then become the truck drivers, and once again, we are locked out of an industry.

Thank you, Madam Chair.

[The prepared statement of Mr. Fair follows:]

PREPARED STATEMENT OF T. WILLARD FAIR

Good morning and thank you for the opportunity to address this panel.

I have devoted much of my adult life to one of the most important challenges facing our country: How to help young black men build constructive lives as fathers and breadwinners. The size of the problem was outlined in a recent book published by the National Urban League entitled *The State of Black America 2007: Portrait of the Black Male*—black men are much more likely to be unemployed than white men, more likely to be dropouts, in prison, in poverty, or dead.

There are many reasons for grim statistics like this, including the continuing effects of slavery and Jim Crow; the shift in the economy away from manufacturing; broken schools in our big cities; the glorification of self-destructive behavior by popular culture.

But one factor is too often ignored—mass immigration.

There was little immigration when the struggle for civil rights began to achieve success in the 1950s and '60s. In fact, the 1965 immigration law that started today's mass immigration was itself seen as a civil rights measure, intended to clean out rules that favored immigrants from some countries over others. Sen. Edward Kennedy, then, as now, chairman of the Senate immigration subcommittee, said "The bill will not flood our cities with immigrants. . . . It will not cause American workers to lose their jobs."

So much for predictions.

Since 1965, nearly 30 million legal immigrants have come here, plus millions of illegal aliens. The results have been devastating for those Americans—black or white—who compete for jobs with this immigrant tide. George Borjas of Harvard has shown that immigration has cut the wages of American men without a high school degree by \$1,800 a year. Economists at Northeastern University have found that businesses are substituting immigrants for young American workers, especially for young black men. In fact, scholars estimate that immigration is the reason for one-third of the drop in employment among black men, and even some of the increase in incarceration.

Of course, none of that means that individual immigrants—or particular immigrant groups—can be blamed for the difficulties facing black men. Being pro-Me should never make me anti-You. Nor can we use immigration as a crutch, blaming it for all our problems. The reality is that less-educated black men in America today have a variety of problems—high rates of crime and drug use, for example, and poor performance at work and school—that are caused by factors unrelated to level of immigration.

But if cutting immigration and enforcing the law wouldn't be a cure-all, it sure would make my job easier. Take employment—immigration isn't the whole reason for the drop in employment of black men; it's not even half the reason. But it is the largest single reason, and it's something we can fix relatively easily.

Think about it this way: If there's a young black man in Liberty City, where I live, who's good with his hands and wants to become a carpenter, which is more likely to help him achieve that goal—amnesty and more immigration, or enforcement and less immigration?

Which is more likely to help an ex-convict or recovering addict get hired at an entry-level job and start the climb back to a decent life—amnesty and more immigration, or enforcement and less immigration?

Which is more likely to persuade a teenager in the inner city to reject the lure of gang life and instead stick with honest employment—amnesty and more immigration, or enforcement and less immigration?

And it's not just a matter of jobs. Whatever your views on government social programs, everyone can agree that resources are not infinite—there's only so much social spending to go around. And since immigrants have relatively low skills and low incomes, they use a lot of social services and pay little in taxes, cutting into the spending on America's own poor. The Center for Immigration Studies estimates that illegal aliens alone cost federal taxpayers \$10 billion more a year in services than

they pay in taxes—that's \$10 billion that's not being spent on disadvantaged Americans, not counting the much larger deficits at the state and local level, where most social services are provided.

Likewise with the schools. This is an issue close to my heart, since I co-founded Florida's first charter school and was recently confirmed as chairman of the statewide Board of Education. We must offer the best education possible to all our children, for their own good and for the good of our country. But as budgets have tightened, school enrollment has surged, and all of the growth in the nation's school-age population—100 percent—comes from immigrant families. This surge in enrollment has led to school overcrowding and has diverted resources that would otherwise have been devoted to at-risk students.

Solutions to the challenges facing black Americans have to come from both private efforts and government initiative—but regardless of the specific approach, flooding the job market and overwhelming the public schools and other government services undermines all our efforts. The interests of black Americans are clear: No amnesty, no guestworkers, enforce the immigration law.

Ms. LOFGREN. Thank you.

Mr. Beck, your 5 minutes are beginning.

TESTIMONY OF ROY BECK, DIRECTOR, NumbersUSA

Mr. BECK. Madam Chairwoman and Mr. Chairman, Ranking Members King and Smith, and others Members of the Subcommittee, thank you for this opportunity to talk about this subject, which was the chief topic, I believe, of the bipartisan U.S. Commission on Immigration Reform in the 1990's chaired by the late Barbara Jordan.

I was pleased that Chairman Conyers brought up this key principle of immigration policy that has fairness to it, and I believe that that was one of the chief principles of the bipartisan commission. In fact, a quote from the Commission's study said that immigration policy is needed so that "it helps mitigate potential negative impacts, particularly on disadvantaged U.S. workers."

I am pleased to talk about this because I helped found NumbersUSA in 1997, I should say, to educate about and to advocate for the recommendations of the Jordan Commission. The Jordan Commission could find no rational justification to meet emerging labor needs by importing large quantities of foreign workers. Now this is after several years of study.

Regrettably, Congress only dealt with a few recommendations about illegal immigration, but put off almost all the recommendations that the Jordan Commission had about protecting the American worker, and that is what they did. They put it off. Many of you were here. You know Congress put it off and it has not taken it back out.

The principle of the Commission was that immigration policy should never be allowed to reduce the wages, working conditions or the opportunities of American workers, and those recommendations of about a decade ago were that this country should dramatically reduce legal immigration, that is bring in fewer of these legal foreign workers that are impacting the people that Mr. Fair is talking about trying to help, the American workers, said that illegal immigration should be substantially reduced by eliminating the jobs magnet, illegal foreign workers in this country should be removed from the labor markets and caused to return to their home countries, and that large-scale foreign worker programs should be avoided.

It seems to me the major question before this Subcommittee, before this Congress, is: Why not go ahead and pass the rest of the Jordan recommendations on immigration to protect the American worker? Have the conditions of our vulnerable American workers improved so dramatically since then that that is no longer valid? And I think the answer is, no, they have actually decreased.

I want to use the remainder of my oral comments to touch on one aspect of the Jordan Commission recommendations which was about reinvigorating domestic recruitment channels. Now we can take an example right here in the Chesapeake region, especially over on the Atlantic Coast.

Every year, you have all of these tourism industry businesses up and down the coast saying down in Congress, "We have to have more visas for foreign workers," and yet in just Virginia, Maryland, D.C. alone, there are 2 million working-age native-born citizens who are not working right now.

Many of these businesses have better procurement channels, labor recruitment channels with Poland than they do with the Potomac, even though the Potomac has tens of thousands of older teens and young adults who are wasting away early years of their lives in nonemployment, instead of getting the experience and the dignity of having the entry-level, the stepping-stone jobs that would lead them to lives of middle-class financial security later on.

The Jordan Commission spoke to this problem. They said the availability of foreign workers may create a dependency on them. We see that everywhere. It has been well-documented that reliance on foreign workers in low-wage, low-skill occupations creates disincentives for employers to improve pay and working conditions for American workers.

When employers fail to recruit domestically or pay wages that meet industrywide standards, the resulting dependence, even on professionals, may adversely affect both U.S. workers in that occupation and U.S. companies that adhere to appropriate labor standards.

We have 23 million native-born Americans, 18 to 64, who are less educated, no more than a high school degree, who do not have jobs right now—23 million. With this kind of situation, with the kind of poverty you read in the *Post* yesterday, the story about Mr. Edwards and his concern about the 37 million people in poverty, you think what would it be like if the American business community created domestic recruitment channels into these big pockets of poverty? How would that change the suffering that we have at the lower levels of this country?

I would say that it is time to look at those Jordan Commission recommendations, maybe go further. I would say why recruit through immigration any low-skilled workers to deal with those, and my final sentence, Madam Chairwoman, is that the evidence shows that we do not have a shortage of workers. We have a shortage of domestic recruitment channels.

Thank you.

[The prepared statement of Mr. Beck follows:]

PREPARED STATEMENT OF ROY BECK

Madame Chairwoman, Ranking Member King, Members of the Subcommittee, thank you for the opportunity to appear before you today to talk about immigration policy and its effect on American workers, one of the two subjects that has dominated my attention as an author and journalist for the past two decades.

The topic of this hearing was addressed through years of exploration by the bipartisan U.S. Commission on Immigration Reform, chaired by the late Barbara Jordan, and including other luminaries such as Michael Teitelbaum and the late Richard Estrada. As it happened, I was commissioned by W.W. Norton & Co. during precisely that mid-1990s period to research and write a book on this same topic. The Jordan Commission began issuing its reports just as I had sent my final manuscripts to New York. I was surprised and pleased to see the Commission making many of the major recommendations that I had included in my own book's conclusions, and for largely the same reasons, including the Commission's principle that immigration policy needed to:

"... help mitigate potential negative impacts, particularly on disadvantaged U.S. workers."

For the last decade, I have had the privilege of educating about those recommendations that came from the final act of public service of Barbara Jordan's long and illustrious career. Since 1997, I have been the executive director of NumbersUSA. It is a non-profit, non-partisan organization founded to educate about and carry out both the immigration recommendations of President Clinton's Council on Sustainable Development and the Jordan Commission recommendations that were designed to serve this country's national interests, and especially the interests of American workers and the households they support.

Let's apply that standard to the question of what to do with illegal aliens who already are in our country. Is the approach that works best for the American worker also good for the economy? Or are the two goals in conflict?

WOULD WE COLLAPSE IF ILLEGAL WORKERS SELF-DEPORTED?

What if the officially estimated 7 million illegal foreign workers¹ were caused to self-deport over the next decade primarily through the enactment and implementation of laws that denied them U.S. jobs?

This is not an idle scenario. Most of the major corporate lobbies believe an aggressive enforcement of immigration laws, added to mandatory workplace verification of new hires, would lead to a substantial loss of workforce among businesses that have illegally hired a lot of foreign workers.

That is why they insist on a legalization of the current illegal workforce—and adoption of a large new guest worker program—before they would consent to full enforcement of immigration laws.

In the assessment of the corporate lobbies, an Attrition Through Enforcement policy depriving businesses of their illegal workers would threaten to collapse the economy, harming all workers and the national interest.

But in the school of thought represented by the bi-partisan U.S. Commission on Immigration Reform, the removal of millions of illegal foreign workers would open up jobs and raise the wages for American workers while strengthening the economy and serving the national interest.

A GIANT POOL OF NON-EMPLOYED AMERICANS

Would our economy suffer under an Attrition Through Enforcement & Self-Deportation scenario? Would American workers gain? Is it economically necessary to legalize the illegal workers to keep their employers in business?

Let's look at some big numbers.

About 142 million people in America (including 7 million illegal aliens) hold paying jobs. They are the producers, and they support 160 million people in America who do not hold a paying job (including 5 million illegal aliens).²

That's 142 million supporting 160 million others.

But among the 160 million "non-producing" dependents are 70 million "non-institutionalized" people who have no job but who are of the same age as the Americans who are holding full-time and part-time jobs.

¹"Size and Characteristics of the Unauthorized Migrant Population in the U.S.," Jeffrey S. Passel, Pew Hispanic Center.

²March 2006 Current Population Survey

Nearly 70 million people in the broad working age of 16–74 are either looking for a job and are considered unemployed, or have dropped out of the labor force altogether.³

That would be 70 million Americans without a job from which to find only 7 million to replace the illegal foreign workers—that is 10 available legal U.S. residents without a job for every one illegal foreign worker with a job.

The ratio is still overwhelmingly in favor of finding American worker replacements even if you limit the pool to:

- Native-born Americans
- Aged 18–64

Some 42 million Americans without a job meet those criteria.

And of those, 23 million are “less-educated” Americans with no education beyond high school and, thus, the people who would be more likely to compete for most of those jobs. That would be three less-educated Americans without a job for every illegal alien with a job.

Sadly, this category of less-educated Americans has seen labor participation rates fall still lower in recent years, as foreign labor participation has risen.⁴ Opening up construction, food production, hospitality and other service jobs would provide immediate opportunities to reverse the native workforce dropout damage of recent years.

ILLEGAL ALIENS DO JOBS AMERICANS WON’T WAIT TO DO

Skeptics always raise the question about whether Americans would do the jobs that illegal aliens are doing. My response long has been that without the availability of foreign labor, employers eliminate jobs that aren’t very productive and improve the conditions on the others until Americans take them.

But many recent cases of workplace raids in meatpacking plants and factories in all regions of the country during the last few months have suggested that there are a lot of Americans who will take so-called foreigner work as is. In nearly every case, federal enforcement arrested or drove out large numbers of illegal foreign workers who were entirely replaced by American workers within a few weeks. In some cases, the employers offered somewhat better wages, benefits and working conditions to attract jobless Americans back into the labor market. But in other cases, Americans were willing to take the jobs under the exact circumstances the illegal worker held them.

We may understand why when we look at the labor statistics a little closer. There may be 23 million less-educated Americans without a job as the potential pool for replacing the illegal aliens and many of whom will need some serious recruiting to get back into the job market. But there are around 7 million unemployed Americans who are looking for a job right now.

SOCIETY AS A WHOLE AND ALL WORKERS TEND TO BENEFIT

Why would we not seek to meet our labor needs out of this pool of non-employed Americans?

From the standpoint of the non-employed Americans, why should they be denied the opportunity to be recruited to jobs that will provide them the satisfaction and dignity of being productive members of our society? The Americans who would benefit tend to be among the most vulnerable members of our national community, with the fewest resources.

From the standpoint of taxpayers, why should working-age Americans dependent on taxpayer support not be encouraged to step up to the plate to take available jobs?

The 142 million productive working people of this country already are supporting the physical and social infrastructure for those 70 million non-employed working-age Americans. As any of those 70 million enter the labor force, there would be no need for more infrastructure to handle the housing, education, transportation, recreation, health care, etc. of they and their families (because they already are here). Furthermore, as they enter the workforce they would begin paying more taxes to take some of the tax burden off the 142 million.

If all 12 million of the officially estimated illegal aliens were to leave the United States, and if 7 million Americans replaced the 7 million illegal workers in their jobs, the ratio of “producers” to “non-producers” would change from a 142 to 160

³ “2006 annual Average Data, Employment status of the civilian noninstitutional population by age, sex and race,” Bureau of Labor Statistics

⁴ “Dropping Out: Immigrant Entry and Native Exit From the Labor market, 2000–2005,” Steven A. Camarota, Center for Immigration Studies Backgrounder, March 2006

ratio to a 142 to 148 ratio, with significant implications for tax/expense ratios of local and state governments.

According to recent Heritage Foundation research, most households headed by illegal aliens are net tax drains of around \$18,000 a year. When they leave the country, governments not only save the \$18,000 per household, but they save on the formerly non-employed legal resident who has taken the illegal worker's job and is now paying more taxes. A less-educated legal resident worker will be a net tax drain, too, but since he/she already was a tax drain as a non-employed person, he/she should be less of a drain with a job.

‘ATTRITION’—NOT ‘MASS DEPORTATION’—PROVIDES TRANSITION

I am not aware of any study or even claim that the Attrition Through Enforcement & Self-Deportation option could result in mass departures of millions a year. And no political leader is proposing mass deportations.

Thus, the process of recruiting and training Americans to replace 7 million illegal foreign workers as discussed above would take place over several years.

The bad news for many of America's most vulnerable citizens is that it will be years before many of those jobs will be opened up by illegal aliens leaving the country. But the slow, steady process of emptying out the illegal population will provide employers plenty of time to adjust to a new era of the rule of law and establishing new channels of recruiting.

‘ATTRITION’ SETS NEED FOR DOMESTIC RECRUITING PATTERNS

Many public and business leaders in local areas seem to sincerely believe that their region not only needs the illegal workers but must import new platoons of legal foreign workers each year.

I recently spoke to a group of government and business leaders from western Colorado. One man said that many tourism and minerals businesses there depend on illegal labor now, have depended on it for a long time and would collapse if new flows of foreign labor were cut off. Through a combination of legal and illegal channels, according to this man, many businesses had become addicted to foreign labor.

The Jordan Commission spoke to this problem:

“The availability of foreign workers may create a dependency on them. It has been well-documented that reliance on foreign workers in low-wage, low-skill occupations, such as farm work, creates disincentives for employers to improve pay and working conditions for American workers. When employers fail to recruit domestically or to pay wages that meet industry-wide standards, the resulting dependence—even on professionals—may adversely affect both U.S. workers in that occupation and U.S. companies that adhere to appropriate labor standards.”⁵

Here again are conclusions that foreign-worker patterns that are harmful to vulnerable Americans are also harmful to the economy as a whole. But just like individuals who are addicted to harmful drugs, businesses and local economies can wean themselves and change to healthier patterns of behavior.

Does anybody really believe that the Colorado ski industry and mineral industry would shut down if the federal government shut off its supply of foreign workers?

Instead of shutting down, one can be sure that these industries would aggressively create new channels of recruitment, perhaps into the relatively nearby population centers of Kansas City, Dallas, St. Louis and Chicago. Yes, at first, they might find it difficult to persuade non-employed people in those cities to pick up roots and move with their families to Colorado. But once the first individuals and families settle and like their conditions, they will send back word to old neighbors, friends and family—just like the foreign workers have been doing the last 30 years. Soon, domestic networking patterns will create flows of labor just like the international ones do today that result in entire villages in foreign countries emptying out to settle in one small area of the United States.

There are currently around 750,000 non-employed native adults (age 18–64) in Wisconsin, 900,000 in Missouri, 1.7 million in Illinois and 3.1 million in Texas.⁶ While Attrition Through Enforcement is gradually weeding out illegal workers from the Colorado labor force, employers have huge pools of potential workers to be persuaded to try living in the beautiful Rocky Mountain state. And if those states don't

⁵ 1997 Report To Congress, “Becoming An American: Immigration and Immigrant Policy,” p. 79

⁶ March 2006 Current Population Survey

prove responsive enough, there are always the 4 million non-employed native adults in California.

Because international recruiting services and networks are so readily available and because the federal government provides and allows such large flows of foreign workers, many Colorado businesses are far more likely today to seek workers from Central America than from the Central Time Zone of the U.S.

The Jordan Commission thought the federal government should encourage employers to re-discover domestic recruiting, calling on it to provide:

*“ . . . incentives or penalties to help ensure that employers in the U.S. engage in serious recruitment of American workers (for example, national rather than local recruitment where appropriate) and contribute significantly to the training of the domestic U.S. workforce.”*⁷

The same phenomenon can be seen so readily in the Chesapeake Bay region and especially along the Atlantic seashore where the tourism industry clamors for access to more and more foreign workers even though around 2 million American natives in Maryland, Virginia and Washington DC do not have a job. Included in that are more than a million in the area who are less-educated. To again go alliterative, some of the businesses demanding more work visas each year are far more focused on recruiting from Poland than from the Potomac where tens of thousands of older teens and young adults waste away years in non-employment with little experience in entry-level and stepping-stone jobs that could form a pattern for later middle-class financial success.

The gradual loss of illegal labor and a gradual reduction in new legal foreign labor would begin to create the virtuous economic circles of the World War One and World War Two eras in which industries had to recruit heavily from among poor, under-employed White and Blacks in the South and in the hill countries of our nation. When the wars shut off immigration, corporate America finally valued the least valued members of our national community and created great migrations of American natives across regions, leading toward the Great Economic Compression that turned the country into a dominantly middle class society.⁸

DEAD-END JOBS BECOME PRIZED JOBS WITH LOWER IMMIGRATION

The Great Economic Compression between 1929 and the early 1950s provides us a model for how reducing overall immigration numbers not only can stop the damage of immigration policy but greatly improve the lives of people in lower-skill jobs without them even having to change jobs.

It was a time when the lower classes gained considerably on the middle classes and the middle classes gained on the upper classes. This emerging egalitarianism happened despite the coincidence with a Great Depression and a World War. Economic historians have attributed as much as one-third of this advancement of the working classes to the fact that immigration levels were low (well below 200,000 a year) and fertility had been low, producing an ever-tighter labor market.⁹

I stood face-to-face with this history during my research in Iowa meatpacking towns. I talked to old meatcutters who had begun their careers in the 1920s in disgusting, dangerous conditions at very low pay. For four decades, industry had used the easy supply of foreign labor to bust unions and keep meatcutting as one of the worst jobs in America.

But after Congress put strict numerical caps on immigration in 1924, the immigrants in the packing houses found that their labor was more and more valued in the tighter labor markets. Their unions grew stronger, pay rose and meatpacking became one of the safer jobs in America.

I talked to numerous men who in the 1970s made enough money to support large families on one income and took nice vacations every year.

But all of them had lost their jobs in the early to mid-1980s after Congress allowed the flow of foreign labor to rise from a quarter million a year in the 1960s to a half million a year in the 1980s (and then a million a year after 1990). One meatpacking company used the excess labor to bust the unions and slash wages and working conditions. Every other company then had to do the same or be run out of business (and several were). Now, meatcutting is back to being one of the worst jobs in America, populated mainly by immigrants and illegal aliens who will put up with the conditions just as long as it takes to find another job.

⁷ 1997 Report To Congress, *Becoming an American: Immigration and Immigrant Policy*, U.S. Commission on Immigration Reform

⁸ *The Case Against Immigration*, Roy Beck (W.W. Norton)

⁹ *American Inequality: A Macroeconomic History*, Jeffrey Williamson and Peter H. Lindert (Academic Press)

I have no doubt that if Congress would enact the Jordan Commission recommendations, we would again see a beleaguered immigrant workforce in the meatpacking industry see their jobs turn into some of the best lower-skilled jobs in the country.

But until then, we seem destined to continue a sad chain of occupations collapsing across the country. American drywallers are among the workers most under attack right now. But you can see it with all kinds of trades and services as the federal government's recklessness about immigration numbers ruins formerly middle-class occupations.

JORDAN COMMISSION RECOMMENDED LESS FOREIGN LABOR

The Jordan Commission in the 1990s could find no rational justification to meet emerging labor needs by importing large quantities of new foreign workers.

Regrettably, Congress dealt with only some of the illegal immigration issues in 1996 and decided to set aside all of the Jordan Commission recommendations on legal immigration for consideration in a future year. That year has yet to arrive.

I hope this hearing is a sign that the time has finally come when Congress and the President will effect policies that place the same kind of priority as did the bipartisan Commission on ensuring that immigration never be allowed to reduce the wages, working conditions or opportunities of American workers.

Based on that principle and research of the economy and labor markets in the 1990s, the Jordan Commission concluded that:

- Annual legal immigration numbers should be dramatically reduced;
- Illegal immigration should be substantially curbed by eliminating the jobs magnet;
- Illegal foreign workers already in the U.S. should be removed from our labor markets and caused to return to their home countries;
- Large-scale foreign guest worker programs should be avoided;
- Legal immigration should be limited to spouses, minor children, refugees and workers of very high skills not possessed by American workers.

It seems to me that the major question before this subcommittee is why it should not go ahead and approve the rest of the Commission's recommendations and also exercise its oversight and purse functions to force this Administration to implement the immigration laws already passed by Congress.

Congress needs to consider if the conditions of the American worker and the economy have changed substantially since 1996 to suggest that a different direction from the Jordan Commission is in order.

With the abysmal statistics on widening gaps in income distribution and the plight of both our native and our foreign-born workers at the lower rungs of the labor market, it appears that the recommendations of the Jordan Commission are even more in order today than when they were made a decade ago.

Ms. LOFGREN. Thank you.

Dr. Camarota, your 5 minutes.

TESTIMONY OF STEVE CAMAROTA, Ph.D. DIRECTOR OF RESEARCH, CENTER FOR IMMIGRATION STUDIES

Mr. CAMAROTA. Madam Chairwoman and Mr. King and Members of the Committee, I would like to thank you for inviting me here to speak.

I would like to begin my comments perhaps in a way by building just on what Mr. Beck said, by looking at it with data. There is no evidence of a labor shortage in this country, especially at the bottom, the labor market where immigrants are most concentrated. If there was, wages, benefits and employment should all be increasing fast. Actually, that is the opposite, the exact opposite, of what has been happening.

The national unemployment rate of 4 or 5 percent is not even relevant to this debate for two reasons. First, immigration's effect on the labor market, especially illegal immigration, is mainly on less-educated, young Americans, wherein unemployment is much higher

than 4 or 5 percent. Second, unemployment figures do not include those who have left the workforce entirely and given up looking for work.

The share of adults without a high school education in the labor market—that is have a job or are looking for a job—fell from 59 to 56 percent between 2000 and 2006, and for those with only a high school degree—and these are adults again—it fell from 78 to 75 percent. Thus, these individuals, however, who are not in the labor market do not even show up in unemployment statistics.

There is a huge supply of potential, less-educated natives in this country. There are 23 million adult natives, 18 to 64, with no education beyond high school who are either unemployed or not in the labor market. There are another 10 million teenagers, 15 to 17, who are unemployed or not in the labor market. There are 4 million college students unemployed or not in the labor market. And in each of these cases, the share of those individuals working has been declining, even after the economy turned up in 2003.

Wages and benefits have generally stagnated or declined for the less-educated. Hourly wages for men with less than a high school education grew just 1 percent between 2000 and 2005. Hourly wages for men with only a high school degree grew by .5 percent for that whole 5-year period. If there really was a labor shortage, wages and benefits and labor force participation should all be going up. It is not.

Now there is a good deal of research showing that immigration has contributed to this problem. In a study published in 2003 by *The Quarterly Journal of Economics*, which is like the top journal in the field, the authors concluded that immigration reduced the average annual earnings of native-born men without a high school degree by over 7 percent.

In another recent paper published by the National Bureau of Economic Research, the authors concluded that immigration was responsible for 40 percent of the decline in Black employment—among men—between 1980 and 2000. Their findings are supported by other research done by Andrew Sum and Paul Harrington at Northeastern University looking at the post-2000 period.

Now it is true that some researchers have found no significant negative effect from immigration, but they have mostly done that by comparing differences across local labor markets. Economists now think that the effect of immigration is national in scope, and the effect is mostly on young and less-educated workers, particularly minorities.

When we focus on such workers and treat the economy as one big integrated whole, the economists do find significant negative effects from immigration. Now, of course, other factors adversely impact wages and employment for such workers, such as technology and globalization, but labor-saving devices and access to imports makes allowing in less-educated workers all the more unnecessary from an economic point of view. And immigration levels, unlike globalization or the pace of technological innovation, is something we can change.

Now it is also important to understand that all research indicates that less-educated immigrants who create the job competition for less-educated natives consume much more in public services

than they pay in taxes. The National Research Council found this. Often, the greatest strain is on services used by America's poor.

Now some still argue for immigration on the grounds that it will stop the aging of America as a society. We are short of workers, and the idea is we are just growing old so fast. But no serious demographer actually makes this argument. Census Bureau projections indicate that if immigration were 200,000 a year, the working-age share of the population, 15 to 64 years of age, would be 59 percent in 2060. If it was a million a year, 5 times higher, the working-age percentage would be 60 percent.

So you could have a huge difference in immigration with a tiny difference in the working-age share. It does make, however, the population a lot larger. Those who wish to keep immigration levels at their current level or perhaps increase them further must at least understand that the policies that they favor come at the expense of the poorest and least educated Americans.

Thank you.

[The prepared statement of Mr. Camarota follows:]

Immigration's Impact on American Workers

**Testimony Prepared for the House Judiciary Committee
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Overview:

- There is no evidence of a labor shortage, especially at the bottom end of the labor market where immigrants are most concentrated. If there was, wages, benefits and employment should all be increasing fast, the opposite of what has been happening.
- Employment has declined significantly for the less-educated. The share of adult natives (18 to 64) without a high school diploma in the labor force fell from 59 to 56 percent between 2000 and 2006, and fell from 78 to 75 for those with only a high school diploma. This means they are neither working nor looking for work.
- There is a huge supply of potential less-educated native workers:
 - There are 23 million adult natives with a high school degree or less unemployed or not in the labor force.
 - There are 10 million native-born teenagers (15 to 17) unemployed or not in the labor force.
 - There are 4 million college students unemployed or not in the labor force.
 - In comparison, there are an estimated 7 million illegal aliens holding jobs.
- Wages and benefits have generally stagnated or declined for the less-educated.
 - Hourly wages for men with less than a high school education grew just 1 percent between 2000 and 2005.
 - Hourly wages for men with only a high school degree declined by .5 percent between 2000 and 2005.
 - The share of employers providing health insurance has also declined.
- There is good deal of research showing that immigration has contributed to the decline in employment and wages for less-educated natives.
- Other factors have also adversely impacted wages and employment opportunities for less-educated natives, such as technological change and globalization.
 - But labor-saving devices and access to imports makes allowing in less-educated workers all the more unnecessary economically and only adds more pressure on the less-educated.
 - Immigration levels are something we can actually change, unlike technological innovation or globalization.
- All research indicates that less-educated immigrants consume much more in government services than they pay in taxes. Thus, not only does such immigration harm America's poor, it also burdens taxpayers.
- Immigration has very little effect on the aging of American society. In 2000, the average age of an immigrant was 39 and 35 for natives.
- Census Bureau projections indicate that if net immigration averaged 100,000 to

200,000 annually, the working-age (15 to 64) share would be 59 percent in 2060, while with net immigration of 900,000 to one million, it would be 60 percent.

- Current immigration will add about 100 million to the US population by 2057. Immigration makes the country more densely settled, but not much younger.
- Those who wish to keep immigration at the current levels or perhaps increase it further must at least understand that the policy they favor comes at the expense of the poorest and least-educated Americans.

Introduction

Few government policies can have as profound an impact on a nation as immigration. Large numbers of immigrants and their descendants necessarily have a significant impact on the cultural, political, and economic situation in their new country. Over the last three decades, socio-economic conditions, especially in the developing world, in conjunction with U.S. immigration policy, have caused 25 million people to leave their homelands and emigrate legally to the United States. Additionally, the Immigration and Naturalization Service estimates that the illegal-alien population grows by 400,000 to 500,000 each year.¹ The current influx has caused an enormous growth in the immigrant population, from 9.6 million in 1970 (4.8 percent of the population) to 35.7 million (12.1 percent of the population) today.

As in the past, immigration has sparked an intense debate over the costs and benefits of allowing in such a large number of people. One of the central aspects of the immigration debate is its impact on the American economy. While the number of immigrants is very large, as I will try to explain in this paper, the impact on the overall economy or on the share of the population that is of working-age is actually very small. And these effects are even smaller when one focuses only on illegal aliens, who comprise one-fourth to one-third of all immigrants. While the impact on the economy or the youthfulness of the country as a whole may be tiny, the effect on some Americans, particular workers at the bottom of the labor market may be quite large. These workers are especially vulnerable to immigrant competition because wages for these jobs are already low and immigrants are heavily concentrated in less-skilled and lower-paying jobs. In this paper I will try to explain some of the ways immigration impacts natives and the economy as a whole.

Five Ways (delete:Reasons?) Immigration Can Impact Wages

Immigrants Might Work for Less. For the most part, the research generally indicates that a few years after arrival, immigrant wages are very similar to those of natives in the same occupation with the same demographic characteristics. This may not be true in all places and at all times, but in general it seems that only newly arrived immigrants undercut native wages.

¹See "Estimates of the Unauthorized Immigrant Population Residing in the United States: 1990 to 2000" available at: http://www.uscis.gov/graphics/shared/statistics/publications/III_Report_1211.pdf

This is probably true of illegal aliens as well. While immigrants as a group, and illegals in particular, do earn less than native-born workers, this is generally due to their much lower levels of education. In other words, immigrants are poorer than natives, but they generally earn wages commensurate with their skills, which as a group tend to be much lower than natives.

Immigrants Are Seen as Better Employees. There is certainly a lot of anecdotal evidence and some systematic evidence that immigrants are seen as better workers by some employers, especially in comparison to native-born African Americans. It is certainly not uncommon to find small business men and women who will admit that they prefer Hispanic or Asian immigrants over native-born blacks. This is especially true of Hispanic and Asian employers, who often prefer to hire from within their own communities. We would expect this preference to result in lower wages and higher unemployment for those natives who are seen as less desirable.

A study of the Harlem labor market by Newman and Lennon (1995) provides some systematic evidence that employers prefer immigrants to native-born blacks. Their study found that although immigrants were only 11 percent of the job candidates in their sample, they represented 26.4 percent of those hired. Moreover, 41 percent of the immigrants in the sample were able to find employment within one year, in contrast to only 14 percent of native-born blacks. The authors concluded that immigrants fare better in the low-wage labor market because employers see immigrants as more desirable employees than native-born African-Americans. I have also found some evidence in my work that in comparison to whites, there is an added negative effect for being black and in competition with immigrants.

The Threat of Further Immigration. While no real research has been done on this question, the threat of further immigration may also exert a significant downward pressure on wages. To see how this might work consider the following example: Workers in a meat packing plant that has seen a sudden rise in the number of immigrant workers will very quickly become aware that their employer now has another pool of labor from which he can draw. Thus, even if immigrants remain a relatively small portion of the plant's total workforce, because of our relatively open immigration policy, the potential of further immigration exists. Therefore, native-born workers curtail their demands for higher wages in response to the threat of more immigration and this in turn holds down wages beyond what might be expected simply by looking at the number of immigrants in an occupation or even the country as a whole.

Immigration Increases the Supply of Labor. By far the most important impact immigration has on the workforce is that it increases the supply of labor. Based on the March 2005 Current Population Survey, there were almost 21 million adult immigrants holding jobs in the United States.² However, they are not distributed evenly across occupations. In 2005, 30 percent of immigrants in the labor market had no high school education, and for those who

²Figures for 2005 are from "Immigrants at Mid-Decade: A Snapshot of American's Foreign-born Population in 2005, which can be found at: www.cis.org/articles/2005/back1405.html

entered in the preceding five years, 34 percent lacked a high school degree. In comparison, only 8 percent of natives in the work force did not have a high school education. Overall, immigrants comprise 15 percent of the total workforce. But they are 40 percent of those without high school diplomas in the work force, while accounting for 12 percent of workers with more than a high school education.

The occupational distribution of immigrants also shows their high concentration in jobs that require relatively few skills. In 2005, immigrants made up 6 percent of persons in legal services occupations (primarily lawyers and support staff), and 9 percent of individuals in managerial jobs. In contrast, they comprised 34 percent of workers doing building clearing and maintenance, and 26 percent of construction laborers. This means immigration has increased the supply of the some kinds of workers much more than others. As a result, any effect on the wages or job opportunities of natives will likely fall on natives employed in less-skilled and low-paying occupations. Given that they face much more job competition, it should not be surprising that less educated workers generally have a less favorable view of immigration. In contrast, more educated and affluent workers who generally have a more favorable view of immigration tend to see immigrants as only "taking jobs Americans don't want."

Workers not in Competition with Immigrants. If immigration reduces wages for less educated workers, these wages do not vanish into thin air. Employers now have more money either to pay higher wages to more educated workers or to retain as higher profits. The National Research Council, in a 1997 study entitled "The New Americans," estimated that immigration reduced the wages of workers with less than a high school degree by about 5 percent. These workers roughly correspond to the poorest 10 percent of the workforce. But this reduction caused gains for the other 90 percent of workers equal to one or two tenths of one percent of their wages. The impact on educated workers is so small because workers at the bottom end of the labor market earn such low wages that even a significant decline in their wages only generates very modest gains for everyone else.

For reasons explained in greater detail in the NRC report, the aggregate size of the wage gains for more educated workers should be larger than the aggregate losses suffered by Americans at the bottom of the labor market, thereby generating a net gain for natives overall. The NRC's findings mean that the wages of workers without a high school degree are \$13 billion lower because of immigration, while the wages of other natives are roughly \$19 billion higher, for a net gain of \$6 billion. Of course, as a share of their income the losses to less-educated natives are much larger than the gains to other workers. And as share of the total economy the gain is extremely small. The two Harvard economists who did the NRC's labor market analysis argued that the benefit to natives, relative to the nation's \$8 trillion economy at that time, is "minuscule."³ However, it should also be noted that while the effect on natives overall may be minuscule, the immigrants themselves benefit substantially by coming here.

³George Borjas and Richard Freeman's *New York Times* opinion piece can be found at: <http://ksghome.harvard.edu/~GBorjas/Papers/NYT121097.htm>

Empirical Research

Attempts to measure the actual labor market effects of recent immigration empirically have often come to contrary and conflicting conclusions. Studies done in the 1980s and early 1990s, which compared cities with different proportions of immigrants, generally found little effect from immigration.⁴ However, these studies have been widely criticized because they are based on the assumption that the labor market effects of immigration are confined to only those cities where immigrants reside.

Impact of Immigration Is Probably National Not Local. The interconnected nature of the nation's economy makes comparisons of this kind very difficult for several reasons. Research by University of Michigan demographer William Frey⁵ and others, indicates that native-born workers, especially those natives with few years of schooling, tend to migrate out of high-immigrant areas. The migration of natives out of high-immigrant areas spreads the labor market effects of immigration from these areas to the rest of the country. There is also evidence that as the level of immigration increases to a city, the in-migration of natives is reduced.

In addition to internal migration patterns, the huge volume of goods and services exchanged between cities across the country creates pressure toward an equalization in the price of labor. For example, newly arrived immigrants who take jobs in manufacturing in a high-immigrant city such as Los Angeles come into direct and immediate competition with natives doing the same work in a low-immigrant city like Pittsburgh. The movement of capital seeking to take advantage of any immigrant-induced change in the local price of labor should also play a role in preserving wage equilibrium between cities. Beside the response of native workers and firms, immigrants themselves tend to migrate to those cities with higher wages and lower unemployment. In short, the mobility of labor, goods, and capital as well as choices made by immigrants may diffuse the effect of immigration, making it very difficult to determine the impact of immigration by comparing cities.

⁴Altonji, Joseph G. and David Card. 1991. "The Effects of Immigration on the Labor Market Outcomes of Less-skilled Natives" in John M. Abowd and Richard B. Freeman editors, *Immigration, Trade and Labor*. Chicago: University of Chicago Press.

Borjas, George. 1984. "The Impact of Immigrants on the Earnings of the Native-Born," W.M. Briggs and M. Tienda, Editors, *Immigration: Issues and Policies*, Salt Lake City: Olympus.

Borjas, George J. 1983. "The Substitutability of Black, Hispanic and White Labor. *Economic Inquiry*, Vol. 21.

Butcher, Kristin F. and David Card. 1991. "Immigration and Wages: Evidence from the 1980s," *The American Economic Review* Vol 81.

⁵Frey, William H. 1993. *Race, Class and Poverty Polarization of US Metro Areas: Findings from the 1990 Census*, Ann Arbor, Mich.: Population Studies Center.

Frey, William H. 1996. "Immigration, Domestic Migration, and Demographic Balkanization in America: New Evidence for the 1990s," *Population and Development Review*. Vol. 22.

The National Research Council. One way researchers have attempted to deal with the problems associated with cross-city comparisons is to estimate the increase in the supply of labor in one skill category relative to another skill category brought about by immigration in the country as a whole. The wage consequences of immigration are then calculated based on an existing body of literature that has examined the wage effects of changes in the ratio of skilled to unskilled workers. The National Research Council (NRC) relied on this method in its 1997 report entitled "The New Americans."⁶ The report was authored by most of the top economists and demographers in the field of immigration. The NRC estimates that immigration has had significant negative effects on the wages of high school dropouts. The NRC concluded that the wages of this group, 11 million of whom are natives, are reduced by roughly 5 percent (\$13 billion a year) as a consequence of immigration. Not a small effect. Dropouts make up a large share of the working poor. Nearly one out of three native workers living in poverty lacked a high school education. The wage losses suffered by high school dropouts because of immigration are roughly equal to the combined federal expenditures on subsidized school lunches, low-income energy assistance, and the Women Infants and Children program.

Center for Immigration Studies Research. My own research suggests that the effect of immigration may be even greater than the estimates in the NRC report.⁷ I compared differences across occupations nationally and found that the concentration of immigrants in an occupation does adversely affect the wages of natives in the same occupation. My results show that immigrants have a significant negative effect on the wages of natives employed in occupations that require relatively few years of schooling, accounting for about one-fifth of the labor force. In these occupations, a 1 percent increase in the immigrant composition reduces the wages of natives by 0.8 percent. Since these occupations are now on average 19 percent immigrant, my findings suggest that immigration may reduce the wages of workers in these occupations by more than 10 percent. It should also be added that native-born blacks and Hispanics are much more likely than whites to be employed in the adversely-impacted occupations.

Other Research on Wages. Harvard professor George Borjas, who is regarded as the nation's leading immigration economist, found in a study published in 2003 by the *Quarterly Journal of Economics* that between 1980 and 2000, immigration reduced the average annual earnings of native-born men by an estimated \$1,700 or roughly 4 percent.⁸ Among natives

⁶Edmonston, Barry and James Smith Ed. 1997. *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*, Washington D.C.: National Academy Press.

⁷Steven Camarota 1998. "The Wages of Immigration: The Effect on the Low-Skilled Labor Market," Washington D.C.: Center for Immigration Studies. Camarota, Steven A. 1997. "The Effect of Immigrants on the Earnings of Low-skilled Native Workers: Evidence from the June 1991 Current Population Survey," *Social Science Quarterly*, Vol. 78.

⁸For a technical version of Dr. Borjas research see:
<http://ksghome.harvard.edu/~GBorjas/Papers/QJE2003.pdf>, for a less technical version see:
www.cis.org/articles/2004/back504.html.

without a high school education, who roughly correspond to the poorest tenth of the workforce, the estimated impact was even larger, reducing their wages by 7.4 percent. The 10 million native-born workers without a high school degree face the most competition from immigrants, as do the eight million younger natives with only a high school education and 12 million younger college graduates. The negative effect on native-born black and Hispanic workers is significantly larger than on whites because a much larger share of minorities are in direct competition with immigrants.

While most of those adversely affected are less educated workers, Borjas's research indicates that the impact of immigration is throughout the labor market. The results for more skilled workers are particularly important because few of the immigrants in this section of the economy are illegal aliens, yet the effect is the same -- lower wages for natives. This new research strongly indicates that the primary reason immigration lowers wages is not that immigrants are willing to work for less, rather lower wages are simply the result of immigration increasing the supply of labor.

Impact on Employment. While most research has focused on wage effects of immigration, some work has also found an impact on employment. A 1995 study by Augustine J. Kposowa found that a 1-percent increase in the immigrant composition of a metropolitan area increased unemployment among minorities by 0.13 percent.⁹ She concludes, "Non-whites appear to lose jobs to immigrants and their earnings are depressed by immigrants." A 1997 report published by the Rand Corporation, entitled "Immigration in a Changing Economy: California's Experience," authored by Kevin McCarthy and Georges Vernez (1997), estimated that in California between 128,200 and 194,000 people were unemployed or withdrawn from the workforce because of immigration. Almost all of these individuals either are high school dropouts or have only a high school degree. Additionally, most are either women or minorities.

Impact on Employment post-2000. More recent work done on immigration also suggests that immigration may adversely impact native employment. A report I authored for the Center for Immigration Studies early this year showed that only 9 percent of the net increase in jobs for adults (18 to 64) went to natives between 2000 and 2005, even though adult natives accounted for 61 percent of the increase in the overall size of the 16-to-64 year-old population. Looking at adult natives with only a high school degree or less, the number of these less-educated natives not in the labor force, which means they are not working or looking for work, increased by 1.5 million between 2000 and 2005. At the same time, the number of adult immigrants (legal and illegal) in the labor force with only a high school degree or less grew by 1.6 million. Of perhaps greatest concern, the percentage of adult natives without a high school degree who are in the labor force fell from 59.1 to 56.3 percent between 2000 and 2005 and for

⁹Kposowa, Augustine J. 1995. "The Impact of Immigration on Unemployment and Earnings Among Racial Minorities in the United States." *Racial and Ethnic Studies*, Vol. 18.

natives with only a high school degree it fell from 78.2 to 75.4 percent.¹⁰ In total there are 11.6 million immigrants in the labor force with only a high school degree or less, about half are illegal aliens.

The decline in less-educated adult natives (18 to 64) in the labor market does not seem to be the result of more parents staying home with young children, increased college enrollment or early retirement. The workers themselves are not the only thing to consider, nearly half of American children (under 18) are dependent on a less-educated worker, and 71 percent of children of the native-born working poor depend on a worker with a high school degree or less. The findings of our 2005 employment study are very consistent with research on this subject. Andrew Sum and his colleagues at Northeastern University have also published several reports showing that all or almost all job growth from 2000 to 2004 went to immigrants. In their most recent paper, Sum and his colleagues found that the arrival of new immigrants (legal and illegal) in a state results in a decline in employment among young native-born workers in that state. Their findings indicate that young native-born workers are being displaced in the labor market by the arrival of new immigrants.¹¹ In another recent paper published by the National Bureau of Economic Research the authors found that a 10-percent immigrant-induced increase in the supply of a particular skill group reduced the wages of black men by 3.6 percent, lowered the employment rate of black men by 2.4 percentage points, and increased the incarceration rate of black men by almost a full percentage point. Overall the authors concluded that immigration was responsible for 40 percent of the decline in black employment between 1980 and 2000.¹²

A recent report by the Pew Hispanic Center found no consistent pattern with regard to native employment between states that experienced a large influx of immigrants and states that had relatively few immigrants. Two key points need to be made about this report: First, as already discussed, it is not at all clear that one can measure the impact of immigration by looking at local labor markets. Second, the report does not focus on trends among persons under age 30 or 35, who have seen the biggest decline in employment in the last 5 years. In fact, Pew only looks at workers 25 years and older. Thus many of the workers most likely to be effected are excluded by Pew, and the rest are lumped in with older workers whose employment has not declined significantly.

Benefits of Immigration

¹⁰The report entitled "Dropping Out: Immigrant Entry and Native Exit From the Labor Force, 2000-2005" can be found at www.cis.org/articles/2006/back206.html

¹¹"The Impact of New Immigrants on Young Native-Born Workers, 2000-2005," September 2006, Center for Immigration Studies, by Andrew Sum, Paul Harrington, and Ishwar Khatriwada. www.cis.org/articles/2006/back806.html

¹²"Immigration and African-American Employment Opportunities: The Response of Wages, Employment, and Incarceration to Labor Supply Shocks," NBER Working Paper 12518, by George J. Borjas, Jeffrey Grogger, and Gordon H. Hanson. <http://ksghome.harvard.edu/~GBorjas/Papers/Borjas,%20Grogger,%20Hanson,%202006.pdf>

Of course, it is important to realize that wage losses suffered by the unskilled do not vanish into thin air. As already discussed, the NRC estimated that the gain resulting from the wage losses suffered by the unskilled is equal to about one or two tenths of one percent of our total economy. Thus, additional unskilled immigration can be justified on the grounds that it creates a very small net benefit for the country as a whole, though it is harmful for unskilled workers. There is some debate about the net benefit of immigration. A 2002 study published by the National Bureau of Economic Research (NBER), entitled "Technological Superiority and the Losses from Migration," found that there is no economic gain from immigration. In fact the loss to all natives totals nearly \$70 billion dollars. But it must be remembered that neither the NRC study or NBER study takes into account the benefits to immigrants.

Impact on an Aging Society

Some observers think that without large-scale immigration, there will not be enough people of working age to support the economy or pay for government. It is certainly true that immigration has increased the number of workers in the United States. It is also true that immigrants tend to arrive relatively young, and that they tend to have more children than native-born Americans. Demographers, the people who study human populations, have done a good deal of research on the actual impact of immigration on the age structure. There is widespread agreement that immigration has very little impact on the aging of American society. Immigrants age just like everyone else; moreover, the differences with natives are not large enough to significantly alter the nation's age structure. This simple fact can be seen clearly in the 2000 Census, which showed that the average age of an immigrants was 39, compared to 35 for natives.¹³

Another way to think about the impact of immigration on the aging of American society is to look at the working-age population. In 2000, 66.2 percent of the population was of working-age (15 to 64), but when all post-1980 immigrants are not counted, plus all of their U.S.-born children, the working-age share would have been 65.9 percent in 2000. Immigration also does not explain the relatively high U.S. fertility rate. In 2000, the U.S. fertility rate was 2.1 children per woman, compared to 1.4 for Europe, but if all immigrants are excluded the rate would still have been 2.0. Looking to the future, Census Bureau projections indicate that if net immigration averaged 100,000 to 200,000 annually, the working-age share would be 58.7 percent in 2060, while with net immigration of roughly 900,000 to one million, it would be 59.5 percent. As the Bureau states in the 2000 publication, immigration is a "highly inefficient" means for increasing the working-age share of the population in the long-run.¹⁴ Census projections are buttressed by Social Security Administration (SAA) estimates showing that over

¹³These figures and ones on aging that follow can be found in a 2005 report by the Center for Immigration Studies entitled, "Immigration in an Aging Society: Workers, Birth Rates, and Social Security," which can be found at www.cis.org/articles/2005/back505.html

¹⁴See page 21 of the Census Bureau's "Methodology and Assumptions for the Population Projections of the United States: 1999 to 2100." The report can be found at: www.census.gov/population/www/documentation/twps0038.pdf

the next 75 years, net legal immigration of 800,000 a year versus 350,000 would create a benefit equal to only 0.77 percent of the program's projected expenditures.

Of course, it must be emphasized that immigration does not make the country older. In fact, the impact is slightly positive. But, one can advocate less immigration secure in the knowledge that it will not cause the population to age more rapidly. There is no doubt that the aging of the nation's population will create very real challenges. But the level of immigration is almost entirely irrelevant to this problem. America will simply have to look elsewhere to meet these challenges.

Policy Discussion

Knowing that low-skilled natives are made poorer or their unemployment increased by immigration does not tell us what, if anything, we should do about it. The extent to which we take action to deal with the wage and employment effects of immigration depends on how concerned we are about the wages of less-skilled natives. A number of scholars have argued that the inability of low-skilled workers to find work and earn a living wage contributes significantly to such social problems as welfare dependency, family breakup, and crime. One need not accept all the arguments made in this regard to acknowledge that a significant reduction in employment opportunities for the poorest Americans is a cause for real concern.

Help Workers But Leave Immigration Policy Unchanged. If we wish to do something about the effects of immigration, there are two possible sets of policy options that could be pursued. The first set would involve leaving immigration policy in place and doing more to ameliorate the harmful effects of immigration on natives in low-skilled occupations. Since the research indicates that the negative impact from immigration falls on those employed at the bottom of the labor market, an increase in the minimum wage may be helpful in offsetting some of the wage effects of immigration, though doing so may exacerbate the unemployment effect. Most economists think that the minimum wage tends to increase unemployment. Increasing the minimum wage and keeping unskilled immigration high, may make this problem even worse.

Another program that might be helpful in assisting those harmed by immigrant competition is the Earned Income Tax Credit (EITC), which provides cash to workers who pay no federal income tax. There is little doubt that the cash payments from the Credit increases the income of low-wage workers. However, in addition to the high cost to taxpayers, the Credit may also hold down wages because it acts as a subsidy to low-wage employers. That is, employers have less incentive to increase wages because workers are now being paid in part by the federal government. Cutting low- and unskilled immigration, on the other hand, has no such down side for less-skilled workers nor is it costly to taxpayers. Moreover, the Credit only increases earnings for those with jobs, it does not address increased unemployment among the less-skilled that comes with immigration. Finally, it is not clear how much increasing the minimum wage or the EITC would be helpful in dealing with the decline in labor-force participation among less educated natives discussed above.

Reducing Unskilled Legal Immigration. The second set of policy options that might be enacted to deal with this problem would involve changing immigration policy with the intent of

reducing job competition for natives and immigrants already here. If we were to reduce unskilled legal immigration we might want to change the selection criteria to ensure that immigrants entering the country will not compete directly with the poorest and most vulnerable workers. At present, only about 12 percent of legal immigrants are admitted based on their skills or education. Since two-thirds of permanent residency visas are issued based on family relationships, reducing the flow of low-skilled legal immigrants would involve reducing the number of visas based on family relationships. This might include eliminating the preferences now in the law for the siblings and adult children (over 21) of U.S. citizens and the adult children of legal permanent residents. These changes would not only reduce low-skilled legal immigration immediately, they would also limit the chain migration of low-skilled immigrants that occurs as the spouses of those admitted in the sibling and adult child categories petition to bring in their relatives.

Reducing Unskilled Illegal Immigration. In addition to reducing the flow of low-skilled legal immigrants, a greater allocation of resources could be devoted to controlling illegal immigration, especially in the interior of the country. About one half of the immigrants working in such occupations as construction, building cleaning and maintenance, and food processing and preparation are estimated to be illegal aliens according to my own analysis and research done by the Pew Hispanic Center. A strategy of attrition through enforcement offers the best hope of reducing illegal immigration. The goal of such a policy would be to make illegals go home or self deport. The former INS estimates that 165,000 illegals go home each year, 50,000 are deported, and 25,000 die. But some 800,000 to 900,000 new illegals enter each year so there is a net growth of 400,000 to 500,000 a year.¹⁵ If America becomes less hospitable to illegals, many more will simply decide to go home.

The centerpiece to interior enforcement would be to enforce the law barring illegals from holding jobs by using national databases that already exist to ensure that each new hire is legally entitled to work here. In 2004, only four employers were fined for hiring illegals. The IRS must also stop accepting Social Security numbers that it knows are bogus. We also need to make a much greater effort to deny illegal aliens things like drivers licenses, bank accounts, loans, in-state college tuition, etc. Local law enforcement can play an additional role. When an illegal is encountered in the normal course of police work, the immigration service should pick that person up and deport him. More agents and fencing are clearly needed at the border as well.

Conclusion

As discussed above, the impact of immigration on the overall economy is almost certainly very small. Its short- and long-term impact demographically on the share of the population that is of working age is also very small. It probably makes more sense for policymakers to focus on the winners and losers from immigration. The big losers are natives working in low-skilled, low-wage jobs. Of course, technological change and increased trade also have reduced the labor market opportunities for low-wage workers in the United States. But immigration is different because it is a discretionary policy that can be altered. On the other

¹⁵See Footnote 1.

hand, immigrants are the big winners, as are owners of capital and skilled workers, but their gains are tiny relative to their income.

In the end, arguments for or against immigration are as much political and moral as they are economic. The latest research indicates that we can reduce immigration secure in the knowledge that it will not harm the economy. Doing so makes sense if we are very concerned about low-wage and less-skilled workers in the United States. On the other hand, if one places a high priority on helping unskilled workers in other countries, then allowing in a large number of such workers should continue. Of course, only an infinitesimal proportion of the world's poor could ever come to this country even under the most open immigration policy one might imagine. Those who support the current high level of unskilled legal and illegal immigration should at least do so with an understanding that those American workers harmed by the policies they favor are already the poorest and most vulnerable.

Ms. LOFGREN. Thank you, Dr. Camarota.

Because this is the minority's day of hearings, I will call first on the Ranking Member, Mr. King, for his 5 minutes of questions.

Mr. KING. Thank you very much, Madam Chair, and I appreciate that.

I think with all the testimony that is here—and I appreciate it all—the part that is the least discussed is the recruitment channels for employees.

And I think about how things work when I went down to go to work on a pipeline when I was 19 years old. People showed up, and some slept in campers. If you stayed there long enough, pretty soon, they would become trailer houses. Then they would begin to put foundations in and build homes, and towns start.

The recruitment lines went back by familial lines. Anyway that the communications could go, from Haiti, from Iowa to Kansas, wherever it might be, that network has been how we recruited a group of employees.

And, Mr. Beck, you spoke on that, and I would ask if you would expand on that thought for this Committee, please.

Mr. BECK. Interesting you would bring up, you know, local personal experience. I grew up in the Missouri Ozarks in the 1960's, and many of my friends—I was busy working in a steel plant there—were recruited to dig for pipelines through Nebraska and Kansas. This was grueling work, 60-hour-a-week work, but they offered good pay, and they had to do it because, at that point, they did not have these foreign labor channels to do it.

I was watching a PBS special on the building of the Alaska pipeline, and I do not know if you have seen this recently, but it is amazing, you know, how incredibly awful the working conditions were, and yet they had people standing in line. They did not have enough jobs—they were terrible jobs—because they paid enough money.

I have no doubt that the Colorado Tourism Ministry that I spoke to recently and said, you know, we would go out of business without foreign laborers, they used to have recruitment channels into places like St. Louis and Chicago and Dallas and Kansas City. They do not have those anymore.

So, I mean, I think all of us can who are of a certain age can remember when those recruitment channels existed. One of the things that happens among young people is that if they do not see people their age or just above their age doing a job, they cannot necessarily imagine doing that job. So it is not going to be particularly easy.

It is going to take a little bit of time for businesses to have to actually motivate. Recruitment means not just offering a job. It means motivating people to take this job. It means, in some cases, getting whole pure networks to come at the same time. But I do not think we are talking about people moving across the entire country either. In most places, you have plenty of labor within 100, 200 miles.

Mr. KING. Could I summarize that by suggesting that employers will do what is necessary and most efficient in order to recruit the labor that they need to do the job?

Mr. BECK. They are not going to go out of business just because the Congress does not provide them easy foreign labor.

Mr. KING. And like electricity, follow the path of least resistance.

I go to Dr. Camarota. You made the statement that the unemployment rates are not even relevant in this discussion, and it is interesting. I have not heard that statement made before this panel at any time. I am in my fifth year here. I might have missed it. But I would ask you to expand upon that a little bit.

I went back to the U.S. Department of Labor, and I thought, well, if you are a company and you wanted to evaluate if you are going to establish, you know, in a locale, you would go in and do a survey and find out what is the available labor supply. The U.S. Department of Labor will get you those numbers if you break those statistics down. You have done that, and if you could speak to that issue, I would appreciate it.

Mr. CAMAROTA. Sure. Look, I mean, the national unemployment rate includes everyone, and it includes only those who say they are actively looking for a job at the time the Government asks.

If we break that down and look at, say, workers with less than a high school education, their unemployment rate is usually two and often three times the national average. If we look at young workers who have only a high school degree but are under the age of 30, their unemployment rate is typically double the national average.

Then there is the issue of all the people who are not even in the labor market, some 20 million people who have no education beyond high school, they are not in school, and they are not in the labor market right now. Now, obviously, not every one of those individuals wants to work.

But to put some of this in perspective, if there are 23 million less-educated natives, either unemployed or not in the labor market, 10 million teens, 4 million college students in the same situation, there are about 7 million illegal aliens. If you are asking me, "Does it seem that we have easily the potential pool of workers to replace the 7 million illegal aliens?" provided we pay well enough, yes.

Mr. KING. All right. Thank you, Dr. Camarota.

Mr. Fair, Dr. Camarota made the statement that 40 percent of the decline in Black employment over the years 1980 to 2000 was indexed to an increase in immigration—illegal immigration would be part of that—would you speak to that issue, please?

Mr. FAIR. Well, absolutely. There is no doubt about, as we look, for example, in Miami, that as the numbers rise in terms of legal and illegal immigration, then prosperity drops in our community. As we look at how they are recruited—you alluded to that earlier—it becomes quite clear that there is a system of informality that allows those, because of their numbers, to impact adversely on my community.

If we go to Fort Lauderdale International Airport, nine out of 10 of the workers there happen to be Haitian, and you would, therefore, conclude that Black people who live in Liberty City do not want to work at the airport. That is not true. There is no official advertisement of the jobs into my community that Black folks are aware of. As a result of that, then it impacts adversely on our num-

bers because the jobs are there, folks take the jobs, and therefore the 40 percent keeps getting larger and larger.

Ms. LOFGREN. The gentleman's time has expired.

Mr. KING. That is the recruitment channel that Mr. Beck addressed.

I yield back.

Ms. LOFGREN. The Chair now recognizes Mr. Ellison for 5 minutes.

Mr. ELLISON. Thank you, gentlemen, for your presentations. I appreciate it.

I also thank the Chair and the Ranking Member for the hearing. It is a very important subject.

I wonder, Mr. Fair, if you could talk about some of the efforts that have taken place from a governmental standpoint or it may be even a business-community standpoint in Liberty City or even Florida to do active recruitment efforts, training efforts, educational efforts to get the young Black men that you and I care so much about in a position to take the jobs that you are mentioning.

So could you talk about what is going on without regard to immigration, but just things that we are doing to train and recruit and educate young African-American men to be ready for the job market? What is going on now?

Mr. FAIR. Through our South Florida workforce program, which is the primary Government-funded program whose purpose is to address that issue, there is a lot going on. The issue is not what is going on, but the issue is the magnitude of that which is going on.

If you have a federally designed program to train and prepare 300 persons who are unemployed to participate in the job market, but the real population of need is 3,000 people, then you make no significant impact on the pattern then. So what is needed is a reallocation of significant resources to resolve the problem today, not tomorrow.

Mr. ELLISON. You know, Mr. Fair, I will agree with you wholeheartedly. I think you are dead on the mark.

The thing that concerns me about the whole discussion we are having today is that, you know, for years and years—and, you know, I am a 43-year-old African-American man—I well remember looking for a job, having trouble getting one. In the programs available, the things to help me get employed were not easy to find, and yet in 2007, we are being told that it is the immigrants' fault. And I just do not buy that.

I think that there has been a consistent neglect of young African-American men participating in the labor force for quite a long time, and now, all of a sudden, for political reasons, some people say, "Oh, it is the immigrants," and I just have problems believing that.

If I could ask you a question, Mr. Camarota, I thought your presentation was very interesting, and I think that you have an excellent command of the statistics in your presentation and I just want to ask you this question. You have made a good case, I think, that America does not have a labor shortage. There are more than enough native American workers to fill the particularly low-wage jobs out there.

But that does not necessarily lead me to the conclusion that it is somehow foreign workers that are doing the displacing. I mean, that might be a reasonable conclusion to draw, but I wonder if you could help me draw the line a little bit tighter for me. For example, if you say there is a worker surplus for low-wage sector employment, can we then necessarily draw the conclusion that it is somehow the agency of low-wage foreign workers or their acts that are causing the displacement of the native workers?

It seems to me that there is a real good chance that is the native corporate structure that is trying to get low-wage workers that are easy to manipulate, not likely to form a union, and are subject to being intimidated through Government acts and through ICI that sort of makes them really want to seek out these foreign workers, which is really the real causative factor.

I wonder if you would comment, if you understand what I am saying.

Mr. CAMAROTA. Well, let me answer it this way. Maybe this is helpful. If the question is, is immigration the only problem that less-educated workers face or African-American men face, clearly, it is not. You have other structural problems in the U.S. economy.

But take that NBER paper for example. It did say that 40 percent of the problem seems to be related to immigration, and it is a 40 percent we could change. We could set a different immigration level and dramatically reduce it. It is very hard to instruct the Japanese to stop setting up factories in Malaysia or to slow the pace of technological innovation which generally disadvantages less-educated people. So this is something we have control over, we can actually do something about.

And another issue is that there also is a kind of a crowding out for public services as well. So you do not just have labor market impact. You can also have impact, say, on health care and education for low-income populations. But immigration is not the only problem. Absolutely.

Ms. LOFGREN. The gentleman's time has expired.

The Ranking Member, Mr. Smith, is recognized for 5 minutes.

Mr. SMITH. Thank you, Madam Chair.

Mr. Fair, let me address my first question to you, but preface it by saying that, 2 weeks ago, I attended church in the Black community of San Antonio, and after church was over, I had breakfast with about 12 new friends in a room next to the church itself.

The number-one issue they were concerned about was illegal immigration. That was from their heart. They have seen the evidence of it in their community, and they knew what they were talking about.

It seems to me that unless we think we can somehow repeal the law of supply and demand when, as you said, when you get into the magnitude of the number of people coming in, the mass illegal immigration or mass legalization of illegal immigrants, that is inevitably going to have an adverse impact on lots of communities, but probably disproportionately the Black community.

Why do you think that there are organizations, particularly even civil rights organizations, that deny that immigration has an impact? As Mr. Camarota just said, we know there are lots of reasons,

but it would be dangerous denial to say that immigration is not one of the substantive reasons. Do you have any thoughts on that?

Mr. FAIR. I most certainly do, and it takes more than 5 minutes, but it is called the complicity of race. And that means that for so long, we have been denied the right to be right about things that are important to us, that when we publicly are right, we get condemned. So the most important thing is for us to be liked by those even though they do not like us.

It is amazing that if you look at the history of Black leadership on this issue, from A. Philip Randolph to Frederick Douglass, W.B. DuBois, they all were against immigration, but a strange thing happened on the way to the press conference. Their supporters initially were people who were immigrants and, therefore, suggested to them that you cannot be against us if you are not for us, and they had to withdraw their positions publicly. The only one that kept his position was A. Philip Randolph. He started out as a restrictionist. He ended up being a restrictionist.

The leadership today is the same. They want to make sure that they are liked, but they cannot deny the reality, and if you talk to people, as you talked to those persons at the church, you will find that what they are saying nationally is not what we are feeling on the street.

Mr. SMITH. That is a profound statement. I thank you for that.

Mr. Beck and Mr. Camarota, let me ask a question of you all.

First of all, Mr. Beck, congratulations on the recent 10th anniversary of NumbersUSA and for all the good work that you have been doing.

You mentioned Barbara Jordan. I served with Barbara. Or did I serve with Barbara Jordan? She was certainly a personal friend of mine, and I know we had to testify before the Immigration Subcommittee that I chaired years ago. I admire her work, and it is interesting that we are now disregarding her work.

She, of course, is a former Congresswoman from Texas, African-American herself, and she saw clearly the dangers of illegal immigration to the American labor market, and since both of you all have testified about the labor market, that is really my question. Both of you have said that there is no labor shortage, that, in one case, wages are less than inflation for the low-skilled for the last several years. Clearly, immigration has an impact on that, although a lot of people tend to gloss over that.

Do you all have any statistics to give us today as to how many legal immigrants there are in the so-called categories of jobs where illegal immigrants supposedly predominate? My figures are along the lines of, for instance, even in the service sector, even in the food industry, even in the construction industry, the vast majority of individuals are actually legal workers, and yet that is where the highest unemployment is among American workers because of the oftentimes low-skilled foreign workers who are coming in and displacing American workers.

Mr. Beck and Mr. Camarota?

Mr. CAMAROTA. Yes. I mean, roughly speaking, in occupations like construction, building, cleaning and maintenance, or food preparation and service, about half of the immigrants in those occupations are illegal, about half are legal, but in most cases, about 70

to 80 percent of the people in those occupations are U.S. born. So illegals generally make up anywhere from 10 to 20 percent of the workers in those occupational categories.

If I had time, I could go through and give you some more precise estimates, but roughly speaking, in most of those occupations, 80 percent of the people are legal and, in most cases, it is more than 80 percent. In fact, if you looked at all 370-plus occupations as defined by the Department of Commerce, you can basically not find any that are majority foreign born, let alone majority illegal.

Ms. LOFGREN. The gentleman's time has expired.

We will now recognize Mr. Davis for his 5 minutes.

Mr. DAVIS. Thank you, Madam Chairwoman.

Let me welcome the panel.

Mr. Fair, let me begin with a statement. I recognize I am not a witness today, but given my friend from Texas's comments and given your comments, I do want to put one thing in perspective. I do not know that generalizations help us a whole lot today.

Mr. Fair, I noticed the title of your opening statement is a provocative one. It is "Mass Immigration Versus Black America," which implies that there is a monolith of effect and a monolith of opinion within the Black community.

You and I do not think alike on this issue. You and Mr. Ellison do not think alike on it. There is no monolith of opinion in the Black community. Some Black people would be supportive of one approach on immigration. Some, such as you, would take another. But I assume and hope you would agree with me there is no Black position on this.

Let me move from that to another set of observations. I want to pick up on Mr. Ellison's points. Mr. Ellison was—and this is how I took Mr. Ellison's questions. I think trying to get you to focus on cause-effect. You lay out in your opening statement, your testimony today, a lot of effects.

You worry, for example, about the fact that illegal aliens could be costing taxpayers \$10 billion more in services than they pay in taxes, and then you make the statement that is \$10 billion that is not being spent on disadvantaged Americans. You mention social services.

If I understand your testimony, your argument, the context, you have said that the money that we are spending on illegal aliens, in your opinion, takes dollars away from the safety net in this country. Is that a fair characterization?

Mr. FAIR. Yes, sir.

Mr. DAVIS. Let's focus on \$10 billion. Do you happen to support the Warner Act?

Mr. FAIR. Yes, sir.

Mr. DAVIS. You do. Do you happen to know how much it has cost?

Mr. FAIR. No, I do not.

Mr. DAVIS. Do you have any idea?

Mr. FAIR. No.

Mr. DAVIS. Do you think it is in excess of \$10 billion?

Mr. FAIR. Should be.

Mr. DAVIS. It is actually, as I understand it, \$8.4 billion a month. That is money that could be spent on social services, too, isn't it?

Mr. FAIR. Yes.

Mr. DAVIS. Are you testifying before any Committee about the war on Iraq draining resources from social services?

Mr. FAIR. I have not been invited.

Mr. DAVIS. Would you agree to testify to any Committee that the war on Iraq is costing too much money in social services? Is that a cause you have taken up, sir?

Mr. FAIR. No, I have not.

Mr. DAVIS. You mention, for example, and you talk in your next paragraph about the fact that you think the presence of immigrants—legal and illegal, I am assuming—results in school overcrowding. Is that also an assertion of yours, that it has created overcrowded schools?

Mr. FAIR. Yes.

Mr. DAVIS. You say it has diverted resources that could have been devoted to at-risk students. You are familiar with No Child Left Behind, are you not?

Mr. FAIR. Got my pin on.

Mr. DAVIS. Are you aware that over the last 4 years that there has been a \$17 billion gap between the authorizing levels of No Child Left Behind and the amount of money that Congress has put on the table?

Mr. FAIR. Yes, sir.

Mr. DAVIS. Does that concern you?

Mr. FAIR. Yes, it does.

Mr. DAVIS. Are you taking any newspaper ads out complaining about No Child Left Behind being underfunded?

Mr. FAIR. Not at this point, but if I get the opportunity—

Mr. DAVIS. Well, it is your money and your opportunity. Have you purchased any newspaper ads regarding No Child Left Behind being underfunded?

Mr. FAIR. No, I have not.

Mr. DAVIS. You ask in your opening statement, “What is more likely to persuade a teenager in the inner city to reject the lure of gang life and instead stick with honest employment?” And then you ask, “Amnesty and more immigration or enforcement and less immigration?”

I absolutely agree with you that gang life is a problem in many communities, including yours in Miami. I assume that part of the problem that there is a gang life is that there is a strong drug culture. Is that correct?

Mr. FAIR. Okay.

Mr. DAVIS. I assume that part of the problem is gang life, is there is an absence of opportunities for young people when they leave school at 3. Do you agree with that?

Mr. FAIR. Yes, sir.

Mr. DAVIS. Have you taken out any ads complaining about an absence of dollars for after-school programs, Mr. Fair?

Mr. FAIR. No, I have not.

Mr. DAVIS. The point that I am making to you—and my time is limited, but I think you get and everyone in this room gets the point that I am making—there are a lot of things contributing to the absence of social services. There are a lot of things contributing to the desperate plight of young Black men. There are a lot of

things contributing to the desperate plight of urban communities. And you have chosen to pick the one for your focus that is the most divisive, that is, frankly, the most corrosive.

If you, frankly, would spend the same kind of energy criticizing budget priorities that shortchange those communities, if you spent the same kind of energy criticizing social neglect of those communities, you would be quite an eloquent voice in the debate. I have no doubt of that.

But my disappointment is with the effort to generalize and to suggest that all Black folks think the same about this, and to suggest that this issue has the causal effect it does, I disagree with you about that.

Ms. LOFGREN. The gentleman's time has expired.

The gentleman—

Mr. KING. Madam Chair, I ask unanimous consent the gentleman be allowed to respond to the 5 minutes of allegations.

Ms. LOFGREN. The gentleman from Alabama is recognized for an additional 1 minute.

Mr. DAVIS. Thank you, Madam Chairwoman.

I am happy to let you respond. Those were not allegations, Mr. Fair. I am simply stating my assertions. You are free to state yours.

But I will end with this point. Yes, we need to do something about the illegal immigration that we have in this country. We all agree on that. We need to secure our border because things more dangerous than people can come over our border.

I absolutely agree with you that if employers go out and hire illegals, they ought to be punished. I was a prosecutor. I sent people to jail for hiring illegals.

But my concern is when you plunge in this issue and you get into this us-against-them rhetoric. I would submit—my final point, Madam Chairwoman—us-against-them politics, Mr. Fair, is not in the interest of racial minorities.

Thank you, Madam.

Ms. LOFGREN. Mr. Fair?

Mr. FAIR. Thank you very much.

First of all, let me congratulate you for reading my testimony.

Secondly, let me also say that if you would state what you read correctly, I did acknowledge that all of those other circumstances exist that impact adversely on my community.

Ms. LOFGREN. The gentleman's time has expired.

Mr. KING. Madam Chair, I would ask unanimous consent that the witness be allowed an additional minute to be able to respond to the question.

Ms. LOFGREN. I object because we have already been here an hour, and I am sure that Mr. Gallegly will invite the witness to respond further.

Mr. Gallegly is recognized for 5 minutes.

Mr. GOHMERT. Parliamentary inquiry. Did the Chairwoman indicate that she was giving the gentleman from Alabama an additional minute to allow the witness to respond?

Ms. LOFGREN. There was a unanimous consent request. Time is not granted to witnesses. Time is granted Members of the Committee to yield, and the gentleman—

Mr. GOHMERT. Well, the record should note that he took all the time.

Ms. LOFGREN. Well, not all of the time, but I am sure Mr. Gallegly will correct that.

Mr. Gallegly is recognized for 5 minutes.

Mr. GALLEGLY. Not only are you a good Chairwoman, you are a very astute Chairwoman, and with that, I thank the gentlelady for the time.

And I would very much like to have the opportunity to hear Mr. Fair respond to Mr. Davis's statement.

Mr. FAIR. Thank you very much, sir.

As I pointed out, if you read my testimony, I did acknowledge and give credit to all of the other conditions that creates the problems that we are concerned about as it relates to the predicament of Black America.

I also said in that statement that mass immigration is part of those issues that create the problem that we do not talk about, and since this was about immigration, it was appropriate for me, I thought, to point out my concerns about the impact of mass immigration, not the impact of drug culture, not the impact of "dysfunctioning" families, not the impact of anything called poverty or racism. But this was the context about the impact of mass immigration.

I tried to do that, and I think I did that correctly, and I am in agreement with your observations that I should be equally as concerned about those other issues, and I think that my record speaks to the fact that I am more than equally concerned about those other issues.

Mr. GALLEGLY. Mr. Fair, as the chairman of Florida's Board of Education, can you describe in your words the impact that the high number of children that speak no English or limited English? Has it or has it not or to what degree has it strained the schools in your State, especially those that have the greatest needs in the economically challenged areas?

Mr. FAIR. The impact, once again, is about resources and resource allocation. Clearly, we understand that in many instances when we have rules that allow both legal and illegal immigrants to come into our community, the burden of preparing those persons or taking care of those persons has always stayed with the local and State government. In two instances do we get enough money from the Federal Government in order to do those things that are related to the newfound citizens of the community.

So part of what has been the challenge for the State of Florida, once again, is to always figure out how can it come up with additional resources that are necessary to meet those needs without any real resources coming from the Federal Government. It is a strain. It is a budgetary one.

Mr. GALLEGLY. Mr. Fair, would you say it is a reasonable assessment to say that illegal immigration affects those most that can least afford to be, that have the greatest needs?

Mr. FAIR. Everything that I have been able to read and understand, whether it is a CIS report or a NumbersUSA report or a FAIR report or a scholarly report from Harvard or from Northeastern University, all support the fact that in spite of what we

think, the reality is that it does impact adversely on those who can least afford it.

Mr. GALLEGLY. Thank you, Mr. Fair.

Mr. Camarota, you know, we have heard lots of numbers, and, unfortunately, there is no real way to clearly define what the real accurate number is. We hear 12 million. We hear 20 million. But by the most conservative estimates today, we very seldom hear less than 12 million. So let's say that we are going to accept the most conservative number being 12 million.

We have also heard that most experts agree that a single immigrant may be responsible for at least 10 that they would subsequently sponsor once they got amnesty or some form of status. Let's say that we take only a percentage of that, two, which would be a conservative number. That would translate into an additional 24 million that would be entering the country over the next 10 years.

Could you just give me a brief response whether you would agree with those numbers as being conservative, and what kind of an impact would that have, particularly on low-skilled native workers?

Mr. CAMAROTA. Okay. Very briefly, if we legalize those here, obviously, it could stimulate a lot more legal immigration. The last amnesty most certainly did. Legal immigration is double what it was prior to the amnesty. So, yes, certainly, if we legalize 10 million or 12 million people, we could stimulate a lot, and, again, because the people legalized have very little education—

Ms. LOFGREN. The gentleman's time has expired.

Mr. CAMAROTA [continuing]. It would tend to stimulate legal immigration of people with very little education as well.

Ms. LOFGREN. The gentleman's time has expired.

The gentlelady from Texas is recognized for 5 minutes.

Ms. JACKSON LEE. Thank you very much, Madam Chairwoman. And thank you to all the witnesses.

Mr. Fair, welcome.

Mr. FAIR. Thank you.

Ms. JACKSON LEE. I have had the opportunity to question the organizations represented by Mr. Beck and Dr. Camarota. In fact, I think, Dr. Camarota—hello—you have seen me in years past—and so forgive me if I focus on Mr. Fair.

Let me make a personal statement and thank Chairwoman Lofgren. It should be very clear how unique, how different, how far reaching the approach on this comprehensive immigration reform has now taken under her chairwomanship. I served for 6 years as the Ranking Member in hearings that then the minority desired to have could never be heard. We could never be heard. And so I think it is a tribute to the new attitude of this Congress to want to make sure that all voices are taken into consideration as we move toward this very, very important step.

I say that to Mr. Beck and Dr. Camarota because your information is important. We will be utilizing that data. It is important.

Mr. Fair, it is important to note, as I acknowledge the importance of statistics, that the overall perspective, I might disagree with you on—and let me just be very clear—but I welcome the discussion. Why? I am a former board member of the Houston Area

Urban League. I champion the leadership over the years that the Urban League has fostered on issues of economics, job training.

I know you know from whence you speak, and I appreciate that you have given us the opportunity to carry this discussion even if in the backdrop of a position that I question, but I certainly welcome because I believe if we are going to get comprehensive immigration reform, your interests, your needs have to be considered.

So let me welcome you and pose a number of questions for you in light of that.

First of all, I think it is important to note that there are many different constituencies that will be addressing this question. I have lived with the comprehensive question, and so I find it crucial, wearing several hats, that whether it is humane, whether it is through homeland security, whether it is because we are a mosaic nation, that we find a road map to document those who are undocumented. I think we need to find a way to address the question of the need of temporary workers. I also believe that we have to find a way to ensure that populations that you speak about are stakeholders in the process.

Now I heard someone on the radio say, "I am so mad because" my son or daughter "cannot get a job at Burger King." I do not want to denigrate Burger King. Of course, this was an African-American person. I do not want to denigrate Burger King, but I want their son or daughter to maybe pass by Burger King and work at Microsoft or be a refined educator or whatever as we move up the economic ladder. I do not want to fight over Burger King, and I am not denigrating it.

But I will say to you there is a vast need of diverse workforce. Some of those happen to be people who are now undocumented. But how do we get to where you want to go? Here is what I want to ask.

I also want to make note so that the record can be clear. The Congressional Black Caucus and the Asian Pacific Caucus, the Hispanic Caucus are working together. No voice is going to be left out, and we are hearing your voice. That is what I think is important. I do not want you to think that you are up here with the lights out and the shades down. The Chairwoman has been very, very open to hearing different viewpoints.

But the question has to be: How do we get to where you want to be? Race matters, does it not, Mr. Fair?

Mr. FAIR. Yes, it does.

Ms. JACKSON LEE. It is still a question.

And I notice in this book, we have a number of issues, the state of civil rights, the unequalness as it relates, but my question is if we can get an immigration bill that partnerships job training, job retention, I do not want to say protectiveness, but hire American first, alongside of recognizing that we have to secure America, can you work along those lines where language would be to tie the growth of immigration to retaining jobs, training, going in to underserved areas and providing real training dollars, not the kind that you cannot find?

I yield to the gentleman.

Mr. FAIR. Thank you very much, and I think you are absolutely correct. The issue becomes, as we pursue a comprehensive reform,

that we also take into consideration the impact that that reform is going to have on American citizens. We also understand that it is much more palatable when we begin to look for solutions, when we articulate to the masses that we also are concerned about your current condition.

It is not about making excuses. It is about understanding that no matter what you do, you have to make sure that what you do impacts on everybody. Part of that solution, for example, is going back to Whitney M. Young's Marshall Plan.

Ms. JACKSON LEE. Yes.

Ms. LOFGREN. The gentlelady's time has expired.

Ms. JACKSON LEE. Well, my sentence, as it expires, is I recommend that you read the Save America Comprehensive Immigration Reform, the parts of that that talk about job training and tying it to comprehensive immigration reform.

I thank the gentleman, and I yield back.

Ms. LOFGREN. The gentlelady's time has expired.

The gentleman from California, Mr. Lungren, is recognized for 5 minutes.

Mr. LUNGREN. Thank you very much, Madam Chairwoman.

I would just have to take issue with one of the statements made that somehow allowing minority day and minority views is a new day in this Committee.

I chaired a hearing on behalf of Mr. Coble last year dealing, I believe, with one of the issues surrounding the Patriot Act and Habeas Corpus and so forth. We held that. We were not the only Subcommittee that did it. I chaired it. I allowed two rounds. I allowed extra time for everybody. And to suggest that somehow we did not allow minority—

Ms. JACKSON LEE. Would the gentleman yield?

Mr. LUNGREN. No. I do not have the time to yield because we are being kept to a very—

Ms. JACKSON LEE. Well, I hope I will be able to explain it on my time. Thank you.

Mr. LUNGREN. We are being kept to a very short 5 minutes here, and I just want to say that fairness is fairness, and I appreciate the fact that—

Ms. JACKSON LEE. Not immigration. It was not fair.

Mr. LUNGREN. Could we have order, please?

Ms. LOFGREN. The gentleman controls the time.

Mr. LUNGREN. Well, it is tough to control the time.

Ms. LOFGREN. I am trying.

Mr. LUNGREN. I come here from a different perspective, I think, than some people on this panel. I was here not when Barbara Jordan was here with her commission, but I go back to the commission that was co-chaired by Father Hesburgh who made the statement that we must close the back door of illegal immigration so that we can keep the front door, legal immigration, open.

So I am not one of those who believe that we ought not to have immigration. I believe that we ought to have a controlled immigration system, and that requires us to stop illegal immigration.

But I also must say that when we were dealing with the issue in the late 1970's that our unemployment rate was over 6 percent, sometimes 7.5 percent or higher than that. Most economists be-

lieved that full employment would always leave you with at least 6 percent unemployment. We are now running at about 4.4, 4.5 percent. We have to understand that we have different economic circumstances now that are actually better.

However, the real problem remains that we have large pockets of unemployment, particularly among minority communities, and that is something that all of us, I think, on a bipartisan basis, ought to be concerned about.

I do not have a study, but anecdotally—I used to work in construction—frankly, the face of construction has changed in the last 20 years, and in some cases, unless you know Spanish, you cannot get a job in construction, and I see a paucity of African-American young men working in construction.

Now I wish the gentleman that made assertions—I think that was the word—was still here because I think that we have to deal with that. And so, that is my perspective.

And here is what I would like to ask Mr. Beck and Dr. Camarota. I happen to be one of those who do not believe that we can take 12 million people out and somehow round them up and send them home. I think we have to do something. It cannot be amnesty from my standpoint as I define it.

But my question is this: If we were to have a program, such as has been talked about being negotiated or at least talked about in the Senate, of a legal status for those who have been here illegally, have not broken the law, speak English, can take care of themselves and so forth, they would have to do it every 3 years, they have to pay a penalty, they do not have the right to bring in other family members, that time is not a new time to count toward citizenship—so they are here, but they are here under legal circumstances—wouldn't that be preferable?

And then we would have real enforcement—real enforcement—I mean employer sanctions and some real means of identification, a tamper-proof Social Security card and a worker card, whatever you want to call it, wouldn't that be a better situation than what we have today?

Mr. BECK. It would be marginally better, yes, but the key factor with illegal immigrants—the Jordan Commission found this—was not that they are illegal, but that they are here, and that is the reason why the level of legal immigration is too high as well. That is—

Mr. LUNGREN. Well, do you want to cut off all immigration?

Mr. BECK. No, but immigration should be reduced back, as the Jordan Commission said, to a level that actually serves the national interests. We have all of these—

Mr. LUNGREN. So you are talking about immigration—it does not matter, legal or illegal?

Mr. BECK. The Jordan Commission recommended deep cuts in our legal—

Mr. LUNGREN. I understand that.

Mr. CAMAROTA. Well, I mean, the research does not suggest that illegals work for dramatically less, though clearly that happens. Rather, it is just their presence here. If you are concerned about low-skilled workers, then do not import so many and try to make as many of them go home. Legalizing does not solve that problem.

Ms. LOFGREN. The gentleman's time has expired.

The gentleman from Texas is recognized for 5 minutes.

Mr. GOHMERT. Thank, Madam Chairman.

I would like to come back to Mr. Fair, and I really appreciated your responses to the assertions from the gentleman from Alabama. I wish he had been here to hear all of your response to his assertions. You made some good points.

All of you have made some good points. I know it takes time out of your schedule, and you do not get paid for being a witness here, so we greatly appreciate all three of your input into the process. I think it is better when you do not get lectured the whole time when you come here to testify.

But, Mr. Fair, you brought up Miami as a good example, and you basically raised a question about what happened to the African-American workers that you had seen in the hotels and other places working that you say now are being held by immigrants, regardless legal or illegal.

It raises a question—and I am curious—do you know what has happened to those African-American workers that you used to see? Are there any surveys or studies that have shown? Are these part of the ones that have just become disenfranchised and not even seeking work? Do you know where they are now?

Mr. FAIR. I think it is probably a combination of all of the above. One of the things that we cannot get in Miami is a discussion around this issue. If you have a discussion around this issue, then someone assumes that you are having a discussion because you are anti-someone being present. Therefore, we can never have the discussion. I am hoping that Steve and CIS, for example, would do a study. It would be interesting to know where Black America in Miami would be today, for example, had not the Cubans come.

Mr. GOHMERT. Well, I am curious where they are today.

Mr. FAIR. Well, some of us say that they are dead, they are incarcerated, they are part of that 80 percent between 18 and 40 that are unemployed. They are part of the new illegal culture in the community. I do not know, but some of these academicians, like Steve and CIS and Roy Beck from NumbersUSA, ought to really document that so you and I would have that answer.

Mr. GOHMERT. Okay. But you do not know of a current study that gives us that information?

Mr. FAIR. No.

Mr. GOHMERT. But you are right. It would be very helpful.

Do you other two know of any studies of that nature?

Mr. CAMAROTA. Well, basically, there is a very long literature showing that less-educated Black men have left the labor force in large numbers in cities like Miami.

In answer to the question, clearly, Blacks have upscaled, so there would be less working in those jobs, and there was some attrition out, and so, basically, some got better employment, some retained the job and a whole lot seems to have just left the labor market entirely and do not even show up in unemployment statistics, and a lot of others are now intermittently employed, so they are unemployed, employed, unemployed. So that is sort of the answer.

It is a mixed bag. Some were crowded out and went elsewhere and did okay, and some seem to have done quite poorly.

Mr. BECK. I would just like to comment about the history, and I happen to be the author of a couple of books, lots of research particularly focused on the relationship between mass immigration and Black Americans beginning in the 1820's.

What history shows is that every time we have spikes of mass immigration, Black Americans' employment opportunities go down. Wage depression hits all American workers, but especially Black Americans, and that is a function of race and culture.

Right now, Mr. Fair, listening to his testimony, I am hearing sometimes it is not race, it is culture. There is a preference of Haitian workers over the descendants of American slaves, and I think that is tied very much into culture of guilt and almost like White majority society's guilt about slavery and, therefore, they take it out on the people that just their presence make them feel guilty.

But the literature is very clear that throughout American history, high immigration means a step backwards for Black progress. It has happened over and over again. It is happening right now.

Mr. GOHMERT. Well, as my time is getting closer to expiring, maybe a study like that would be helpful.

I would like to comment. Yes, I would like for all Americans to be able at some point to drive past Burger King and have other employment, but I think the far greater tragedy is those who have come disenfranchised and are not even trying. There is the real tragedy because some of us started out having some of the worst jobs—cleaning toilets, for example, that nearly made me throw up—but that gave me opportunities to keep moving on, and crawling under houses for a job that you had to dig your way in and dig your out, hauling hay 18 hours a day. Those jobs may be menial and some think less respectable, but I would submit they give you a chance to move on to better education.

Thank you all very much.

Ms. LOFGREN. The gentleman's time has expired.

The Chair recognizes herself for 5 minutes. I just wanted to make a couple of comments.

First, in our hearing last week, we had very interesting testimony, and one of the pieces of testimony was about a study done by Professor David Card of Princeton University. Rather than do the analysis that economists do, they took an actual event and studied it, and what they did was they studied the Mariel boat lift into Cuba to see what happened when 125,000 individuals, primarily low-skilled, all of a sudden in a very short period of time jumped into Miami.

It increased the population of Miami, according to the study, by 7 percent, and what they found was, surprisingly or not, there was no adverse impact on the employment at any level, not among Cubans, a very tiny, slight effect on Cubans, no adverse impact on African-American workers. They did controlled studies in Atlanta, Houston and Los Angeles, and without objection, I am going to make the underlying economic report a part of the record—and I will also provide it to you, Mr. Fair—along with the updated study from 2005 which I will also make part of the record, without objection.

Also, the Ranking Member mentioned that there are these studies, and they are absolutely correct because they have not been

countered, and I think certainly they have been countered by witness after witness. I just want to mention a critique, which, without objection, I will make part of the record, of The Heritage Foundation which is often cited.

This report from the Immigration Policy Center describes The Heritage Foundation as “deeply flawed” and that it relies on “inflated statistics and dubious assumptions to arrive at its flawed conclusions.” It goes on to say that the report contributes to “low-income households the cost of political decisions over which they have no control. For instance, the Heritage report’s accounting low-income households are responsible for a share of the billions of dollars being spent in Iraq.”

And they also allocate to immigrants “the payment on the national debt stemming from the enactment of tax cuts” that have created a huge hole in the budget, and they also go on to say that the report does not accurately gauge the impact of any group on the U.S. economy as a whole.

I would like to just read a section on page 6 of the report. “To the extent that the Heritage report mentions immigration at all, it is to raise the specter of immigration reform unleashing a flood of low-wage immigrants into the U.S. labor market and dramatically increasing the fiscal burden on U.S. taxpayers. The authors support this grim scenario by citing another Heritage report from May of 2006 which presented inflated estimates of the increase in legal immigration that allegedly would result” from the bill in the Senate last year.

“The 2006 report claimed that the bill would allow anywhere from 66 million to 217 million new immigrants into the United States over the next 20 years. The outlandishness of these projections is evident in the fact that the estimate of 217 million is 70 million more than the combined populations of Mexico, Belize, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama. The 2006 report arrived at these estimates largely through statistical slight of hand in which many categories of immigrants were double counted.”

And, without objection, this report is a part of our record.

[The information referred to is inserted in the Appendix.]

Ms. LOFGREN. I just think it is important that we have the facts before us. We are all entitled to our opinions, but we are not entitled to our own facts.

At this point, I would like to recognize the gentlelady from Texas for a unanimous consent request. Ms. Jackson Lee, did you have a unanimous consent request?

Ms. JACKSON LEE. I certainly did. Let me thank the Chairwoman. I would like to put into the record the chapter from “The State of Black America 2007,” the section, Mr. Fair, on status of civil rights by Ted Shaw. And I would like to ask unanimous consent to submit that into the record.

Ms. LOFGREN. Without objection.

[The information referred to is inserted in the Appendix.]

Mr. KING. Madam Chair? Madam Chair, I have a unanimous consent request.

Ms. LOFGREN. I am sorry?

Ms. JACKSON LEE. I am sorry. I did not—

Ms. LOFGREN. All right. Without objection, Mr. King, you have a unanimous——

Ms. JACKSON LEE. I did not finish mine.

Ms. LOFGREN. Oh, I am sorry. I did not mean to cut you off of your unanimous consent request.

Ms. JACKSON LEE. Thank you.

And I would like to also put into the record section 703 of H.R. 750, the “Save America Comprehensive Immigration Act of 2007,” Mr. Fair, that talks about the issue of recruitment of American workers.

[The information referred to is inserted in the Appendix.]

Ms. JACKSON LEE. I would clarify the fact that, as the Ranking Member on this Committee on Immigration, we never were able to hear the then-minority view, which was the view of Democrats at that time. And I thank the gentlelady.

Ms. LOFGREN. My time has expired.

I recognize the Ranking Member for a unanimous consent request.

Mr. KING. Thank you, Madam Chair.

I ask unanimous consent that the Rector study be introduced into the record.

Ms. LOFGREN. Without objection.

[The information referred to is inserted in the Appendix.]

Mr. KING. And I might also, if the Chair would submit, do a very short colloquy.

Ms. LOFGREN. We have been here for an hour and 35 minutes. So the Member is recognized for 1 minute.

Mr. KING. Okay. And I would ask the Chair if she would consider holding a hearing and allow the author of the study from the Immigration Policy Center to testify before this Committee alongside the author of the Rector study so we would have an opportunity to evaluate the perspectives of those two experts.

Ms. LOFGREN. We will certainly consider any requests by the minority. We are mindful that we have a very aggressive schedule of hearings and very few days to do it. And so, if the request would be proposed to us in writing, we will consider it, understanding that we are in conflict with other Subcommittees, and finding dates when we can actually meet has proven to be quite a challenge. But we will do our very best.

Mr. KING. Thank you, Madam Chair.

Ms. LOFGREN. At this point——

Mr. GOHMERT. Parliamentary inquiry.

Ms. LOFGREN. Yes?

Mr. GOHMERT. A comment was made that the minority position was never allowed to be heard in the last term. Was there ever a minority request made in the last——

Ms. LOFGREN. The gentleman has not stated a parliamentary inquiry.

Without objection, Members will have 5 legislative days to submit any additional written questions to you witnesses, which we will forward and ask that you answer as promptly as you can, to be made part of the record.

Without objection, the record will remain open for 5 legislative days——

Mr. GOHMERT. Parliamentary inquiry.

Ms. LOFGREN [continuing]. For the submission of any other additional materials.

I would like to extend an invitation to everyone here to attend our next two hearings on comprehensive immigration reform. On Tuesday, May 15, at 9:30 a.m., we explore issues relating to how immigrants assimilate into American communities.

And, with that, this hearing is adjourned.

[Whereupon, at 11:33 a.m., the Subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

"THE IMPACT OF THE MARIEL BOATLIFT ON THE MIAMI LABOR MARKET" BY DAVID
CARD, AUGUST 1989, SUBMITTED BY THE HONORABLE ZOE LOFGREN

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THE IMPACT OF THE MARIEL BOATLIFT ON THE MIAMI LABOR MARKET

David Card

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THE IMPACT OF THE MARIEL BOATLIFT ON THE MIAMI LABOR MARKET

ABSTRACT

This paper presents an empirical analysis of the effect of the Mariel Boatlift on the Miami labor market, focusing on the wages and unemployment rates of less-skilled workers. The Mariel immigrants increased the population and labor force of the Miami metropolitan area by 7 percent. Most of the immigrants were relatively unskilled: as a result, the proportional increase in labor supply to less-skilled occupations and industries was much greater. Nevertheless, an analysis of wages of non-Cuban workers over the 1979-85 period reveals virtually no effect of the Mariel influx. Likewise, there is no indication that the Boatlift led to an increase in the unemployment rates of less-skilled blacks or other non-Cuban workers. Even among the Cuban population wages and unemployment rates of earlier immigrants were not substantially effected by the arrival of the Mariels.

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One of the chief concerns of immigration policy makers is the extent to which immigrants depress the labor market opportunities of less-skilled natives. Despite the strong presumption that an influx of immigrants will reduce native wages, existing empirical studies suggest that the effect is small.¹ There are two leading explanations for this finding. First, immigrants have on average only slightly lower skill characteristics than the native population.² Thus, econometric studies based on the distribution of the existing stock of immigrants probably understate the effect of unskilled immigration on less-skilled natives. Second, the locational choices of immigrants and natives presumably depend on expected labor market opportunities. Immigrants tend to move to cities where the growth in demand for labor can accommodate their supply. Even if new immigrants cluster in only a few cities (as they do in the US), inter-city migration of natives will tend to offset the adverse effects of immigration.³

These considerations illustrate the difficulty of using the correlation across cities between wages and immigrant densities to measure the effect of immigration on the labor market opportunities of natives. They also

¹See the survey by Greenwood and McDowell (1986), and studies by Grossman (1982), Borjas (1987), Lalonde and Topel (1988) and Altonji and Card (1989).

²For example, tabulations from the 1980 Census indicate that in 1980 16.3 percent of natives over age 25 had 4 or more years of college and 67.7 percent were high-school graduates. By comparison, 15.8 percent of immigrants had 4 or more years of college and 53 percent were high school graduates. See U.S. Department of Commerce Bureau of the Census 1980 Census of Population Characteristics of the Population - Detailed Population Characteristics (Volume 1, Chapter D, Part 1, United States Summary: PC80-1-D1-A) Table 255.

³See Filer (1988) for a recent attempt to examine this phenomenon.

underscore the value of a natural experiment that corresponds more closely to an exogenous increase in the supply of immigrants to a particular labor market.

The experiences of the Miami labor market in the aftermath of the Mariel Boatlift form one such experiment. From May to September 1980, some 125,000 Cuban immigrants arrived in Miami on a flotilla of privately-chartered boats. Their arrival was the consequence of an unlikely sequence of events, culminating in Castro's declaration on April 20 1980 that Cubans wishing to emigrate to the US were free to leave from the port of Mariel.⁴ The available data suggest that 50 percent of the Mariel immigrants settled permanently in Miami. The result of this influx was a 7 percent increase in the overall population and labor force of Miami, and a 20 percent increase in the Cuban population and labor force.

This paper summarizes the effects of the Mariel Boatlift on the Miami labor market, focusing on the effects on wages and unemployment rates of less-skilled workers. The analysis is based on individual micro-data for 1979-85 from the merged outgoing rotation group samples of the Current Population Survey (CPS). Three features of the Mariel incident and the Census data greatly facilitate the analysis. First, the CPS sample of the Miami metropolitan area is relatively large: roughly 1200 individuals per month. Second, a comprehensive picture of the Miami labor market in the months just before the Mariel Boatlift is available from the 1980 Census. (The Census was conducted on April 1). Finally, unlike most other ethnic groups, Cubans are separately identified in the CPS questionnaire. Thus it

⁴See Masud-Piloto (1988, chapters 6-7) for an overview of the political developments that lead to the Mariel Boatlift.

is possible to estimate wage rates, unemployment rates, and other economic indicators for both Cubans and non-Cubans in the Miami labor market, and to measure the effects of the Mariel immigration on the two groups separately.

Observers in Miami at the time of the Boatlift noted the strain caused by the Mariel immigration. The homicide rate increased nearly 50 percent between 1979 and 1980.⁵ On the weekend of May 17, 1980 a three day riot occurred in several black neighborhoods, killing 13. A government-sponsored committee of inquiry identified other longstanding grievances in the black community as the cause of the riot, but cited the labor market competition posed by the Cuban refugees as an important background factor (Governor of Florida's Dade County Citizen's Committee, 1980, pp. 14-15).

A more quantitative assessment is provided by the data in Figure 1, which presents monthly unemployment rates in Miami in the months before and after the start of the Boatlift.⁶ The unemployment rate in Miami rose from 5.0 percent in April 1980 to 7.1 percent in July 1980. As the figure makes clear, however, state and national unemployment rates followed a similar pattern, suggesting that the changes in Miami were not solely a response to the Mariel influx. Nevertheless, widespread joblessness of the refugees throughout the summer of 1980 contributed to a perception that labor market opportunities for less-skilled natives were threatened by the Mariel immigrants.⁷

⁵See Wilbanks (1984) Table 2.1, page 142.

⁶These data are seasonally adjusted, and are taken from Bureau of Labor Statistics Employment and Earnings Table E1 (Table D1 after December 1981) various issues.

⁷For example, an article in Business Week (August 25 1980, pp.86-87) contains quotes from an Florida State Employment Service official and a Department of Labor Wage and Hours Division official noting the downward

Despite this perception, the analysis in this paper gives no indication of any short- or longer-term effect of the Mariel immigration on the wages or unemployment rates of non-Cubans in Miami. Rather, the analysis confirms the conclusion of earlier studies that the effect of immigration is largely confined to members of the immigrant group itself. In the case of the Mariel incident, most of this effect can probably be explained by the characteristics of the new immigrants, who substantially lowered the average skill level of the Cuban labor force in Miami.

I. Overview of the Miami Labor Market Before the Boatlift

For at least a decade prior to the Mariel Boatlift Miami was the most immigrant-intensive city in the US. Tabulations from the 1980 Census indicate that 35.5 percent of residents in the Miami Standard Metropolitan Statistical Area (SMSA) were foreign born.⁸ This compares with 22.3 percent in Los Angeles, the major city with the next highest immigrant fraction, and 6.1 percent nationwide. At the time of the Census 56 percent of immigrants in Miami were of Cuban origin. The remaining foreign-born residents, who accounted for 16 percent of the Miami population, included other hispanic groups and a broad selection of Caribbean and European nationals.

Miami also has a significant black population. The fraction of black residents was 15.0 percent in 1970 and had increased to 17.3 percent at the

pressure on wages and working conditions in the unskilled segment of the Miami labor market.

⁸The Miami SMSA consists of Dade county, and includes Miami City as well as a number of smaller towns and cities. Throughout this paper, I use "Miami" to refer to this broader geographic region.

time of the 1980 Census. This dual concentration of immigrants and blacks makes Miami somewhat unusual among larger US cities, but ideal for studying the effect of increased immigration on the labor market opportunities of black natives.⁹

Table 1 presents a comparative description of the four major groups in the Miami labor force in 1979: white non-hispanics; black non-hispanics; Cubans (foreign-born and native born); and other hispanics. For simplicity I have restricted attention to individuals age 16-61. This group represents roughly 60 percent of the Miami population. A total of 1564 observations are available for 16-61 year olds in the 1979 outgoing rotation group file of the CPS; similar samples are available in subsequent years.

The fractions of Cubans and blacks in the 16-61 age group are 27.2 and 26.3 percent, respectively, while white non-hispanics compose 34.4 percent and non-Cuban hispanics 11.1 percent. Overall, 73 percent of this age group participated in the labor force, with somewhat higher participation rates among whites and Cubans, and lower rates among blacks and other hispanics. Education levels in Miami are somewhat below the national average: the mean of completed education for 16-61 year olds in 1979 was 11.8 years in Miami, compared with 12.2 years nationwide.

The occupation distributions in rows 7-17 of Table 1 give some indication of the degree of labor market competition between the four groups. Cubans and other hispanics have very similar occupation distributions, with both groups having a higher representation in craft and

⁹ Across 121 of the largest cities in the US in 1980 the correlation between the fraction of immigrants and the fraction of native blacks is -.16.

operative occupations than either whites or blacks. Blacks are more highly concentrated in laborer and service-related occupations, and are significantly under-represented in managerial occupations.

One useful summary measure of the overlap in the occupational distributions of the different groups is the average percent increase in labor supply in occupations held by one group that would result from a one percentage point increase in the overall fraction of workers in a second group.¹⁰ This index has the simple form $\sum_j s_{1j} s_{2j} / s_j$, where s_{1j} is the fraction of workers of group 1 in occupation j , s_{2j} is the fraction of workers of group 2 in occupation j , and s_j is the fraction of all workers in occupation j . Based on the distributions in Table 1, an inflow of immigrants resulting in a one-point increase in the fraction of Cubans in Miami would lead to a weighted average increase of .95 percent in the supply of labor to occupations held by whites. Under the same conditions the increase would be .99 percent for occupations held by blacks, 1.02 percent for non-Cuban hispanics, and 1.06 percent for Cubans themselves. These calculations suggest that the overlap between the occupational distributions of the four groups is relatively high.

II. The Mariel Immigration

Due to the unauthorized nature of the Boatlift no exact count of the number of Mariel immigrants is available, and there is little precise information on the characteristics and/or final destinations of the immigrants. This section summarizes some of the available information, including data from the March 1985 Mobility Supplement to the Current

¹⁰ This index is derived in Altonji and Card (1989), pp. 15-16.

Population Survey, which allows Mariel immigrants to be distinguished from other Cubans.

Most sources estimate the number of Mariel immigrants who arrived in 1980 at between 120,000 and 125,000. A recent Census Bureau Current Population Report states that 126,000 refugees entered the US as "Cuban Entrants" (the special immigration status awarded to the Mariel refugees) between April 1980 and June 1981.¹¹ 104,000 of these arrived between April and June 1980. It is widely assumed that about one-half of these settled permanently in Miami: for example, this assumption is used by the Census Bureau in their "Experimental County Population Estimates" file. Tabulations reported below from the March 1985 CPS confirm this belief.¹²

Table 2 contains estimates of the Miami population for the years 1979 to 1985 from published Census sources and from my own tabulations of the CPS. Census Bureau estimates of the Dade County population show an increase of 80,500 from April 1 to July 1 of 1980, and a relatively slow rate of increase thereafter. Annual counts from the CPS show an increase of some 200,000 in the population of 16-61 year olds between 1979 and 1981, and then a slowly decreasing count from 1981 to 1985. About one-half of this increase was due to an increase in the number of Cubans: their share of the 16-61 age group increased from 27 percent in 1979 to 33 percent in 1981. A similar increase is registered in CPS-based estimates of the Cuban share of the 16-61 year old labor force, which moved from 37.2 percent in

¹¹US Department of Commerce Bureau of the Census Current Population Reports Series P-25, Number 1022, page 9.

¹²It should be noted that population estimates from the CPS rely on the accuracy of Census Bureau weighting procedures, which are themselves based on estimates of local populations.

1979 to 44.8 percent in 1981. Assuming that the Cuban shares of the population and labor force would have remained constant between 1979 and 1981 in the absence of the Boatlift, these figures suggest that the Mariel immigration added 56,000 individuals to the Miami working age population and approximately 45,000 to the Miami labor force: increases of 7 percent.

From the first days of the Boatlift the characteristics of the Mariel immigrants have been a subject of controversy. Among those who were permitted to leave Cuba were several hundred inmates of mental hospitals and jails. Many of these individuals were arrested by immigration officials upon their arrival into the US, and over 1000 were sent to a special prison facility in Atlanta to await deportation back to Cuba.¹³ A similar number were arrested for crimes committed in the US and still await a determination of their ultimate immigration status.¹⁴ Contemporary reports indicate that the Mariel immigrants included a relatively high fraction of less-skilled workers, and a high fraction of individuals with low English ability (see the article in Business Week).

Although the questions in the regular Current Population Survey provide insufficient information to identify Mariel immigrants from other foreign and native-born Cubans, the March 1985 Mobility Supplement asks each respondent where he/she lived in March 1980 (one month before the start of the Boatlift). Table 3 presents a descriptive summary of the

¹³ See Masud-Piloto (1988, pp. 100-103). Under a 1984 agreement a total of 2700 Mariel immigrants were to be returned to Cuba.

¹⁴ Mariel immigrants were blamed for and indeed seem to have committed a relatively high number of crimes in the first few months after the boatlift. Wilbanks (1984) reports that 38 of the 574 homicides in Miami in 1980 were committed by Mariel immigrants. Disaffected Mariels were involved in 6 airline hijacking attempts in August 1980. See Masud-Piloto (1988, pp. 95-96).

Cuban population interviewed in the March 1985 CPS, classified by whether the respondent claimed to be living abroad or in the US five years earlier. The sample sizes, particularly of post-1980 entrants, are small.¹⁵ Nevertheless, these data confirm the general impression that on average Mariel immigrants have less education, are somewhat younger, and are more likely to be male than other Cuban immigrants.

The figures in Table 3 also suggest that the Mariel immigrants have lower labor force attachment and lower wage rates than other Cubans. The occupation distributions in rows 8a-8k suggest that the Mariels are more heavily concentrated in laborer and service occupations than other Cubans, and are less likely to hold sales, clerical, and craft jobs. Relative to other Cubans, the occupations of the Mariel immigrants are therefore more similar to those of black workers.

The unadjusted wage gap between Mariels and other Cubans is 34 percent. Part of this differential is attributable to the lower education levels and younger ages of the Mariels. A simple linear regression for the logarithm of average hourly earnings fitted to the sample of Cubans with earnings in 1984 suggests that the Mariels earned 18 percent lower wages than other Cubans, controlling for education, potential experience, and sex (the standard error of this estimate is .08). This gap probably reflects the combination of lower language ability and a shorter assimilation time in the US among the Mariel immigrants, as well as any permanent differences in ability and/or motivation between the earlier and later Cuban immigrants.

¹⁵ The weighted count of all Cubans in the March 1985 CPS who entered the US after 1980 is 85,800, which is only 69 percent of the estimated 125,000 Mariel refugees.

III. The Effect of the Mariel Immigration of the Miami Labor Market

Tables 4 and 5 present simple averages of wage rates and unemployment rates for whites, blacks, Cubans, and other hispanics in the Miami labor market between 1979 and 1985. In order to provide a comparative perspective for evaluating the changes that took place over this period, I have also assembled similar data for whites, blacks, and hispanics in four "comparison" cities: Atlanta, Los Angeles, Houston, and Tampa-St. Petersburg. These four cities were selected to generate relatively large samples of blacks and hispanics, while at the same time exhibiting a pattern of economic growth similar to that in Miami over the late 1970's and early 1980's. A comparison of employment growth rates (based on establishment-level data) suggests that economic conditions were very similar in Miami and the average of the four comparison cities between 1976 and 1984.

The wage data in Table 4 reveal a number of facts. Perhaps most obvious is that earnings are lower in Miami than in the comparison cities. The differentials in 1979 ranged from 8 percent for whites to 15 percent for blacks. A more surprising result is that real earnings levels of whites in both Miami and the comparison cities were more-or-less constant between 1979 and 1985. This is in contrast to the slight decline in real wages in the overall US economy over this period (see Bound and Johnson (1989), pp. 5-6) and underscores the relatively close correspondence between economic conditions in Miami and the comparison cities.

In contrast to the situation for whites, the trends in earnings for nonwhites and hispanics differ somewhat between Miami and the comparison cities. Black wages in Miami were roughly constant from 1979 to 1981, then

fell in 1982 and 1983 before recovering to their previous level in 1984. Black earnings in the comparison cities, on the other hand, show a steady downward trend between 1979 and 1985. Based on these data there is no evidence of a negative impact of the Mariel immigration on black wages in Miami. The data do suggest a relative downturn in black wages in Miami during 1982-83. It seems likely, however, that this reflects an unusually severe cyclical effect associated with the 1982-83 recession. I return to this issue in Table 7, below.

Wage rates for non-Cuban hispanics in Miami were relatively stable between 1979 and 1985, with only a slight dip in 1983. In contrast, hispanic wage rates in the comparison cities fell about 6 percentage points over this period. Again, there is no evidence of a negative effect in Miami, either in the immediate post-Mariel period or over the longer run.

Table 4 does provide some indication of a decline in Cuban wage rates relative to other groups in Miami. Relative to whites, for example, Cuban wages fell by 6-7 percentage points between 1979 and 1981. Assuming that the wages of earlier Cuban immigrants were constant, this decline is consistent with the addition of 40,000 Mariel workers to the pool of Cubans in the Miami labor force, and with the 34 percent wage differential between Mariels and other Cubans noted in Table 3. A more thorough analysis of Cuban wages is presented in Table 8, below.

The unemployment rates in Table 5 lead to the same general conclusions as the wage data in Table 4. There is no strong evidence of an adverse effect of the Mariel influx on the unemployment rates of either whites or blacks. The unemployment rates suggest a severe cyclical downturn in the black labor market in Miami in 1982-83. Black unemployment rates in Miami,

which had been 2-4 points lower than those in the comparison cities from 1979 to 1981, equalled or exceeded those in the comparison cities from 1982 to 1984. The 1985 data indicate a return to the pre-1982 pattern, although the sampling errors are large enough to prevent precise inferences.

In contrast to the pattern for whites and blacks, there was a sizeable increase in Cuban unemployment rates in Miami following the Mariel immigration. This is illustrated in Figure 2, which plots unemployment rates of Cubans in Miami against those of non-hispanics (white and black) over the 1979-85 period. The graph indicates that Cuban unemployment rates were perhaps 3 percentage points higher during 1980-1981 than would have been expected on the basis of earlier (and later) patterns. Assuming that the unemployment rates of other Cubans were not affected by the Mariel influx, this effect is consistent with unemployment rates of around 20 percent among the Mariels themselves. While far from conclusive, this simple calculation suggests that the increase in Cuban unemployment rates could easily be explained as a result of the addition of the Mariel refugees to the Cuban population, with little or no effect on earlier immigrants.

The simple averages of wages and unemployment rates in Tables 4 and 5, which combine workers of all ages and education levels, do not directly address the question of whether the Mariel immigration reduced the earnings of less-skilled natives in Miami. A more direct answer is provided by the data in Table 6. In order to identify "less-skilled" workers, I fit a linear regression equation for the logarithm of hourly earnings to workers in the comparison cities. The explanatory variables in this regression included education, potential experience, squared potential experience,

indicator variables for each sex and race group, and interactions of the sex-race indicators with potential experience and squared potential experience. I then used the estimated coefficients from this equation to form a predicted wage for each non-Cuban worker in Miami, and sorted the sample from each year into quartiles on the basis of predicted wage rates.

This procedure gives a simple way to identify more- and less-skilled workers in the Miami labor market. Means of actual log wages for each quartile and year are presented in the first four columns of Table 6. The difference in mean wages between the first and fourth quartiles, which provides an index of the spread in the wage distribution, is presented in the fifth column of the table.

If the Mariel immigration reduced the wages of less-skilled natives, one would expect to observe a decline in the wage of workers in the lowest skill quartile, at least relative to workers in the upper quartile. The actual averages show no evidence of this effect. Apart from a temporary increase in relative wages of workers in the lowest quartile between 1979 and 1981, the distribution of non-Cubans wages in the Miami labor market was remarkably stable between 1979 and 1985. Taken together with the data in Table 4, there is little evidence of a negative effect of the Mariel influx on the earnings of natives.

A final check is provided by Table 7, which contains more detailed information on wages, employment rates, and unemployment rates for blacks in Miami between 1979 and 1985. I have separately analyzed the set of all blacks and the set of blacks with less than 12 years of education, to isolate any differential effect on the less-skilled segment of the black population. For both groups I have calculated the differential in wages

between Miami and the comparison cities (both the unadjusted difference in mean log wages, and a regression-adjusted differential that controls for education, sex, marital status, part-time status, private/public employment, and potential experience), and the differentials in the employment-population rate and the unemployment rate between Miami and the comparison cities.

As indicated in Table 4, the wage differential for blacks in Miami relative to those in the four comparison cities decreased slightly between 1979 and 1981. The differential increased substantially in 1982, but then began a steady downward trend after 1983. By 1985, the wage gap was less than 5 percent for all black workers, and was actually positive for less-educated blacks. The magnitudes of the regression-adjusted wage differentials are not significantly different from the unadjusted differentials, reflecting the similarity of the black populations in Miami and the comparison cities. Like the unadjusted differentials, the adjusted wage gaps show no evidence of any effect of the Mariel immigration on black wages.

A similar conclusion emerges from the pattern of differentials in employment-population rates and unemployment rates.¹⁶ Among all blacks, there is some evidence of a relative decline in the employment-to-population ratio in Miami between 1979 and 1985. This effect seems to have started in 1982, but is less pronounced among low-education blacks. The series of unemployment rate differentials indicate a worsening of relative

¹⁶ I have also computed regression-adjusted employment-population and unemployment gaps, using linear probability models. The explanatory power of the statistical models is so low, however, that the adjusted differentials are almost identical to the unadjusted differentials.

unemployment for blacks in Miami, also starting in 1982, although the unemployment gap closed in 1985. Given the two year lag between the arrival of the Mariels and the emergence of this unemployment gap, it seems more likely a result of the 1982 recession than a reaction to the influx of less-skilled immigrants.

The effects of the Mariel immigration on Cuban labor market outcomes are examined in detail in Table 8. The first column of the table reproduces the means of log wages in each year from row 3 of Table 4. The second column gives predicted log wages of Cubans in Miami, using estimated coefficients from a regression equation fit to hispanics in the four comparison cities. The gap between actual and predicted wages is presented in the third column of the table. These series show that the 9 percentage point decline in Cuban real wage rates in Miami between 1979 and 1985 was a result of two complementary factors: a 6 percent relative decline in the "quality" of the Cuban labor force in Miami, as measured by the decline in their predicted wages; and a 3 percentage point increase in the quality-adjusted wage gap between Cuban workers in Miami and hispanic workers in the comparison cities. Two-thirds of the wage decline is therefore attributed to the changing productivity characteristics of the Cuban labor force, and only one-third to a decrease in the return to skills for Cubans in the Miami labor market.

The next four columns of Table 8 give the means of log wages for Cuban workers in each quartile of the distribution of predicted wages (using the same prediction equation as was used to form the means in column 2). These means suggest that real wage rates of Cubans in the lowest quartile of the wage distribution declined by 11-12 percentage points between 1979 and

1985. The decline is smaller for workers in the higher quartiles, but there is some variation between 1984 and 1985, and in light of the sampling errors it is difficult to draw precise inferences. The difference between the means of the first and fourth quartiles is 9 percentage points higher in 1984 than 1979, but the relative difference narrows to only 2 points in 1985. These figures are consistent with a larger decline in earnings at the low end of the Cuban wage distribution after the Mariel immigration, as might be expected from the addition of a large group of relatively unskilled workers to the pool of Cubans. The extent of the decline, however, is not precisely measured.

An alternative method of assessing the effect of the Mariel immigration on the earnings of Cubans in the Miami labor market is to compare Cuban wages in Miami to the wages of Cubans elsewhere in the US. Since the fractions of Mariels in the Cuban labor force is roughly the same inside and outside Miami, this comparison controls for any unobservable differences in skill between the Mariels and other Cubans (due to language ability, for example).¹⁷ The ninth and tenth columns of Table 8 contain estimates of the wage differential for Cubans in Miami relative to those elsewhere in the US, both unadjusted and adjusted for education, sex, part-time status, private sector/public sector employment, marital status (interacted with sex) and potential experience.

The earnings differentials computed in this way are roughly constant between 1979 and 1984. The 1982 unadjusted wage differential is 10 percentage points larger than earlier or later ones, but the regression-

¹⁷ This is strictly true only if the unobservable differences have a constant proportional effect on all Mariels, independent of the level of observed skills or location choice.

adjusted differential is not significantly different from any of the other differentials. The 1985 data also indicate a slightly higher Cuban wage rate outside Miami. In any case, a comparison of Cuban wages inside and outside the Miami labor market shows no evidence of a widening gap in the years immediately following the Mariel immigration. On the assumption that the Mariel influx had no effect on the wage rates of other Cuban outside Miami, this suggests that the observed downturn in Cuban wages in Miami can be attributed solely to the "dilution" of the Cuban labor force with less-skilled Mariel workers.

IV. Interpretation of the Findings

The data in tables 4-8 point to two conclusions. First, there was essentially no effect of the Mariel immigration on the wages or employment outcomes of non-Cuban workers in the Miami labor market. Second, and perhaps even more surprising, there was no strong effect of the Mariel immigration on the wages of other Cubans. The observed decline in average Cuban wage rates in Miami after 1980 is no larger than would be expected by simply adding the Mariel immigrants to the pool of Cuban workers, assuming that the Mariels earned about one-third less than other comparable Cubans (as the March 1985 data suggest). This conclusion is confirmed by a comparison of Cuban wage rates inside and outside Miami, which shows no relative change over the period.

These conclusions lead naturally to the question of how the Miami labor market was able to absorb a 7 percent increase in population and labor force with no adverse effects. One possible answer is that the Mariels displaced other immigrants and natives who would have moved to Miami in the

early 1980's had the Boatlift not occurred. The population data in Table 2 lend some credence to this explanation: 80 percent of the population growth that occurred between 1979 and 1984 in Miami took place between April and July 1980.

A broader perspective on this potential explanation is provided by comparing population growth rates in Miami and other Florida cities between 1970 and 1986. From 1970 to 1980, Miami population grew at an annual rate of 2.5 percent per year while the rest of Florida grew at a rate of 3.9 percent. After April 1, 1980 the growth rate in Miami slowed to 1.4 percent per year while that in the rest of the state decreased to 3.4 percent.¹⁸ The larger relative slowdown in Miami suggests that the Boatlift may have actually deterred long-run population growth in Miami. The population of Dade county in 1986 was about equal to the pre-Boatlift projection of the University of Florida Bureau of Economic and Business Research under their "low population growth" scenario.¹⁹

Nevertheless, data from the March 1985 Current Population Survey suggest that Miami continued to attract new foreign-born immigrants after 1980. A total of 2.7 percent of all non-Cuban immigrants who arrived in the US after March 1980 were living in Miami in March 1985. By comparison, only 1.8 percent of all non-Cuban immigrants in the US at the time of the 1980 Census lived in Miami. Therefore, Miami attracted "more than its

¹⁸ These figures are obtained from 1970 population counts in US Bureau of the Census 1970 Census of Population - Number of Inhabitants (PC(1)-A1), Table 32, and 1980 and 1986 counts in US Bureau of the Census Current Population Reports - Local Population Estimates (P-26, No. 86-2-SC), Table 1.

¹⁹ See Florida Statistical Abstract 1981 (Table 1.24). The population growth projections were formed using population growth data for the 1970's.

share" of new non-Cuban immigrants to the US in the five-year period after the Mariel immigration. The implication is that the slow-down in the rate of growth of the Miami SMSA after June 1980 occurred because of a change in the net migration rate of natives and older cohorts of immigrants, rather than because of a change in the inflow rate of new immigrants. This finding is consistent with the pattern of domestic migration between 1970 and 1980 identified by Filer (1988), who finds a strong negative correlation across SMSA's between the net in-migration rate of natives and the in-migration rate of immigrants.

A second potential explanation for the rapid absorption of the Mariel immigrants is the expansion of industries that utilize relatively unskilled labor. Altonji and Card's (1989) tabulations from the 1970 and 1980 Censuses indicate that a small number of industries employ a large fraction of immigrants, and that these industries expanded more rapidly between 1970 and 1980 in cities with large immigrant populations. The immigrant-intensive industries identified in their analysis include apparel and textiles, agriculture, furniture, private household services, hotels and motels, eating and drinking establishments, and business services. These are all relatively low-wage industries that employ large numbers of semi-skilled operatives and laborers.

Tabulations of the industry distributions of employment in Miami and the entire US before and after the Mariel Boatlift are presented in Table 9. The "before" tabulations are based on reported industry of the main job last year for respondents in the March 1979 and March 1980 Current Population Surveys, while the "after" tabulations are based on similar data

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from the March 1984 and March 1985 CPS.²⁰ The relative importance of each industry in the Miami labor market is indicated by the ratio of employment shares in the third and seventh columns of the table. Finally, the fractions of Cuban workers in each industry in the Miami labor market are presented in the fourth and eighth columns of the table. In light of the relatively small sample of Miami workers I have grouped the low-wage service industries identified by Altonji and Card (1989) (building services, private household services, hotels and motels, and laundries and cleaning services) into a single industry category. Nevertheless, the numbers of workers in individual industries in the Miami labor market are small, and the sampling errors associated with the Cuban percentages are relatively large.

The tabulations for 1978-79 indicate that Miami had relatively high employment shares in textile and apparel industries, transportation (notably air transport), wholesale trade, less-skilled service industries, and other personal service industries. The high employment share of textiles and apparel is especially remarkable in light of the relatively low concentration of other manufacturing industries in Miami. The data in the fourth column of the table show that most of the textile and apparel workers in Miami, and almost one-half of all other manufacturing workers, were Cubans. Cubans were also over-represented in wholesale trade and other personal service industries, but under-represented in transportation, communication, and utility industries.

²⁰The Census industry coding scheme used in the CPS was changed in 1983. For most of the industry groups identified in Table 10 there was little change in the coding scheme.

The employment tabulations from 1983-84 show a similar pattern to the earlier data, with little evidence of a relative expansion of employment in textiles, eating and drinking establishments, or less-skilled service industries. The largest relative change occurred in the employment share of agriculture, which increased from .83 percent to 2.33 percent in Miami, while remaining relatively constant in the US as a whole. In view of the relative stability in the fraction of Cubans in this industry, however, it seems unlikely that this expansion was driven by the Mariel immigration. The largest increase in the fraction of Cubans occurred in less-skilled services, which moved from 14 percent Cuban before the Boatlift to about one-third after. There is no evidence of a similar expansion in the fraction of Cubans in textiles and apparel or other manufacturing.

On balance the data in Table 9 give little indication of a shift in the industry distribution of employment in Miami between 1978 and 1984. On the other hand the data suggest that the industry distribution in Miami in the late 1970's was well-suited to handle an influx of unskilled immigrants. In 1979 over one-third of the Miami labor force was made up of immigrants: approximately one-third of these had arrived in the previous decade.²¹ As a result, immigrant-intensive industries such as textiles and apparel and less-skilled service industries were well-established. Many of the Mariel immigrants may have simply displaced earlier immigrants in these industries, as older cohorts of immigrants moved to more attractive jobs.

²¹Tabulations from the 1980 Census show that of the 578,055 foreign-born residents of Miami on April 1 1980, 205,887 (35.6 percent) arrived after 1970. Of 324,976 foreign-born Cubans, 91,514 (28.2 percent) arrived after 1970.

V. Conclusions

The experiences of the Miami labor market in the aftermath of the Mariel Boatlift provide a natural experiment with which to evaluate the effect of unskilled immigration on the labor market opportunities of native workers. The Mariel immigrants increased the population and labor force of the Miami metropolitan area by 7 percent. Most of these immigrants were relatively unskilled: as a result, the proportional increase in labor supply to less-skilled occupations and industries was much greater. An analysis of wage rates for less-skilled non-Cuban workers, however, suggests that the influx of Mariel immigrants had virtually no effect. Likewise, there is no evidence of an increase in unemployment among less-skilled blacks or other non-Cuban workers. Rather, the data analysis suggests a remarkably rapid transition of the Mariel immigrants into the Miami labor force, with negligible effects on other groups. Even among the Cuban population there is no indication that wages or unemployment rates of earlier immigrants were substantially effected by the arrival of the Mariels.

Despite the clear-cut nature of these findings some caution is required in their interpretation. The Miami labor market is atypical of other local labor markets in the US. In the two decades before the Mariel Boatlift Miami had absorbed a continuing flow of Cubans and other immigrants. The Mariel immigration can be seen as part of a long-run pattern: one that may have recently re-emerged with the arrival of Nicaraguans and other Central Americans.

Three factors may have been especially important in facilitating the absorption of the Mariel immigrants. First, a comparison of population

growth rates in Miami and the rest of Florida suggests that the net migration of natives and earlier cohorts of immigrants into the Miami area slowed considerably after the Boatlift. To some extent the Mariels displaced other migrants from within the US who would have moved to Miami in the early 1980's. Second, the industry structure of the Miami labor market was well-suited to make use of an influx of relatively unskilled workers. This structure, and in particular the high concentration of textile and apparel industries, evolved over the previous two decades in response to earlier waves of immigration, and may have allowed the Mariel immigrants to move into unskilled jobs as earlier cohorts of immigrants moved into better jobs. Finally, because of the high concentration of Spanish-speakers in Miami, the lack of English-speaking ability among the Mariels may have had relatively smaller effects than could be expected for other immigrant groups in other cities.

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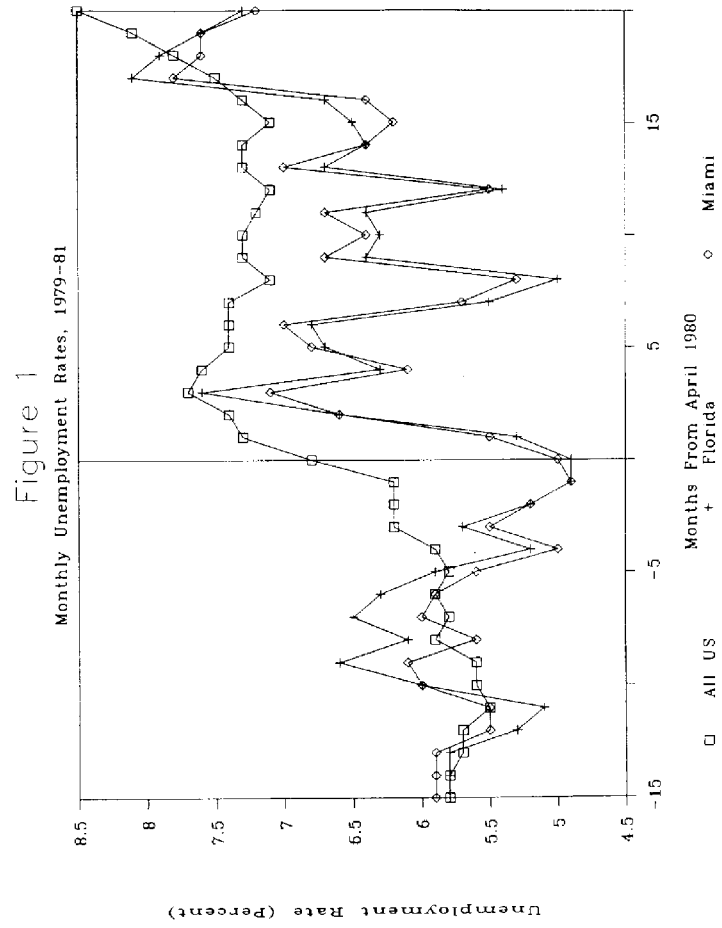
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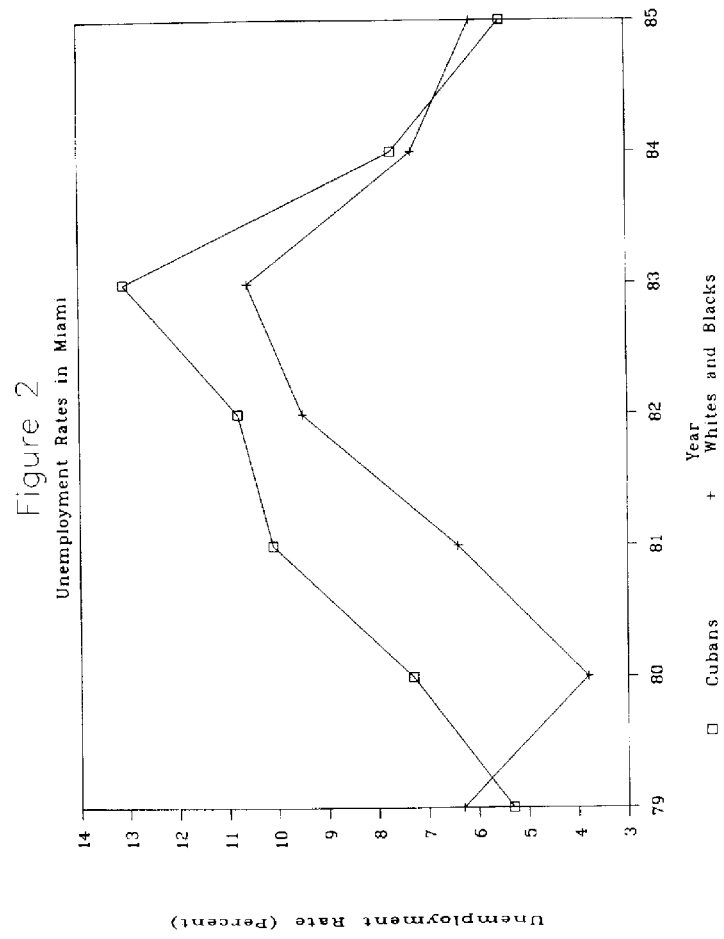


Table 1
 Characteristics of 16-61 Year-Olds in Miami, 1979

	Whites	Blacks	Cubans	Hispanics	All
<u>Characteristics of Population Age 16-61</u>					
1. Estimated Number (1000's)	319.3	244.1	252.4	102.9	928.4
2. Mean Education	12.8	11.4	11.0	11.6	11.8
3. Percent in Labor Force	75.6	68.3	77.2	68.8	73.1
<u>Characteristics of Those in Labor Force</u>					
4. Estimated Number (1000's)	241.3	166.6	194.7	70.8	678.2
5. Mean Education	13.1	11.8	11.3	11.9	12.1
6. Percent Age 16-24	21.1	24.1	22.0	26.0	22.8
<u>Occupation Distribution</u> (Percent of Employed)					
7. Professional and Technical	19.1	10.9	9.5	10.1	13.2
8. Managers	15.7	2.8	8.6	8.1	9.4
9. Sales	6.2	4.4	7.8	7.6	6.5
10. Clerical	21.9	21.0	19.1	20.9	20.9
11. Craftsmen	13.3	9.4	15.1	12.7	12.8
12. Operatives	4.4	8.4	19.4	16.7	11.1
13. Transportation Operatives	2.6	8.1	5.4	5.9	5.2
14. Laborers	5.1	10.5	4.7	4.0	6.3
15. Farm Workers	1.1	0.1	0.4	0.8	0.6
16. Less-Skilled Service Workers	5.0	13.3	6.1	10.2	8.0
17. More-Skilled Service Workers	5.7	10.9	4.0	3.0	6.2

Notes: White and black groups exclude hispanics. Hispanic group includes all hispanics other than Cubans. Less-skilled service workers include cleaning and food service workers. More-skilled service workers include health service, personal service, and protective service workers. Data are based on samples of employed workers in the outgoing rotation groups of the Current Population Survey in 1979.

Table 2
Estimated Population and Labor Force in Miami, 1979-85

	Census Bureau Estimates for July 1 ^{a/}		CPS-Based Estimates for Entire Year ^{b/}		
	Total Population	Population 16-61	Population 16-61	Cubans 16-61	Labor Force 16-61
1979			928,400	252,400	678,200
1980	1,706,269	1,049,738	998,700	278,200	734,000
1981			1,135,600	372,000	830,400
1982	1,715,306	1,053,556	1,104,200	345,300	803,300
1983			1,128,000	343,500	853,300
1984	1,727,155	1,052,167	1,124,200	327,300	839,400
1985			1,192,200	321,900	867,000

Notes: ^{a/} Drawn from U.S. Bureau of the Census Experimental County Population Estimates data file. Population age 16-61 is estimated from 5-year interval population counts assuming a uniform age distribution within intervals. 1980 estimates include estimated Mariel immigrants as of that date. Miami population on Census Day (April 1 1980) was 1,625,781, of which 989,975 were age 16-61.
^{b/} Weighted counts from 12 monthly samples of outgoing rotation groups in Current Population Survey.

Table 3
 Characteristics of Mariel Immigrants and Other Cubans:
 Tabulations from March 1985 CPS

	Mariel Immigrants	All Other Cubans
1. Educational Attainment		
Percent of Population		
(a) No High School	56.5	25.4
(b) Some High School	9.1	13.3
(c) Completed High School	9.5	33.4
(d) Some College	6.8	12.0
(e) Completed College	18.1	15.8
2. Percent Male	55.6	50.7
3. Percent Under 30 in 1980	38.7	29.6
4. Mean Age in 1980 (Years)	34.9	38.0
5. Percent in Miami in 1985	53.9	52.4
6. Percent Worked in 1984	60.6	73.4
7. Mean Log Hourly Earnings	1.37	1.71
8. Occupation Distribution		
(Percent of Employed)		
(a) Professional/Managers	19.3	21.0
(b) Technical	0.0	1.5
(c) Sales	4.5	11.2
(d) Clerical	2.5	13.5
(e) Craftsmen	9.5	19.9
(f) Operatives	19.1	23.8
(g) Transportation Ops.	3.8	4.3
(h) Laborers	10.8	3.3
(i) Farm Workers	0.0	1.8
(j) Less-Skilled Service	26.0	7.4
(k) More-Skilled Service	4.6	2.3
9. Sample Size	50	528
Weighted Count	42,300	476,900

Note: Sample consists of all Cubans in March 1985 Current Population Survey age 21-66 (i.e., age 16-61 in 1980). Mariel immigrants are identified as those Cubans who stated that they lived outside the U.S. 5 years previously.

Table 4
Logarithms of Real Hourly Earnings of Workers Age 16-61
In Miami and Four Comparison Cities: 1979-85

(standard errors in parentheses)

	1979	1980	1981	1982	1983	1984	1985
<u>Miami:</u>							
1. Whites	1.85 (.03)	1.83 (.03)	1.85 (.03)	1.82 (.03)	1.82 (.03)	1.82 (.03)	1.82 (.05)
2. Blacks	1.59 (.03)	1.55 (.02)	1.61 (.03)	1.48 (.03)	1.48 (.03)	1.57 (.03)	1.60 (.04)
3. Cubans	1.58 (.02)	1.54 (.02)	1.51 (.02)	1.49 (.02)	1.49 (.02)	1.53 (.03)	1.49 (.04)
4. Hispanics	1.52 (.04)	1.54 (.04)	1.54 (.05)	1.53 (.05)	1.48 (.04)	1.59 (.04)	1.54 (.06)
<u>Comparison Cities:</u>							
5. Whites	1.93 (.01)	1.90 (.01)	1.91 (.01)	1.91 (.01)	1.90 (.01)	1.91 (.01)	1.92 (.01)
6. Blacks	1.74 (.01)	1.70 (.02)	1.72 (.02)	1.71 (.01)	1.69 (.02)	1.67 (.02)	1.65 (.03)
7. Hispanics	1.65 (.01)	1.63 (.01)	1.61 (.01)	1.61 (.01)	1.58 (.01)	1.60 (.01)	1.58 (.02)

Note: Entries represent means of log hourly earnings (deflated by the Consumer Price Index 1980=100) for workers age 16-61 in Miami and four comparison cities: Atlanta, Houston, Los Angeles, and Tampa-St. Petersburg. See note to table 1 for definitions of groups. Data are based on samples of employed workers in the outgoing rotation groups of the Current Population Survey in 1979-1985. Due to a change in SMSA coding procedures in 1985, the 1985 sample is based on individuals in outgoing rotation groups for January-June of 1985 only.

Table 5
Unemployment Rates of Individuals Age 16-61
In Miami and Four Comparison Cities, 1979-85

(standard errors in parentheses)

	1979	1980	1981	1982	1983	1984	1985
<u>Miami:</u>							
1. Whites	5.1 (1.1)	2.5 (0.8)	3.9 (0.9)	5.2 (1.1)	6.7 (1.1)	3.6 (0.9)	4.9 (1.4)
2. Blacks	8.3 (1.7)	5.6 (1.3)	9.6 (1.8)	16.0 (2.3)	18.4 (2.5)	14.2 (2.3)	7.8 (2.3)
3. Cubans	5.3 (1.2)	7.2 (1.3)	10.1 (1.5)	10.8 (1.5)	13.1 (1.6)	7.7 (1.4)	5.5 (1.7)
4. Hispanics	6.5 (2.3)	7.7 (2.2)	11.8 (3.0)	9.1 (2.5)	7.5 (2.1)	12.1 (2.4)	3.7 (1.9)
<u>Comparison Cities:</u>							
5. Whites	4.4 (0.3)	4.4 (0.3)	4.3 (0.3)	6.8 (0.3)	6.9 (0.3)	5.4 (0.3)	4.9 (0.4)
6. Blacks	10.3 (0.8)	12.6 (0.9)	12.6 (0.9)	12.7 (0.9)	18.4 (1.1)	12.1 (0.9)	13.3 (1.3)
7. Hispanics	6.3 (0.6)	8.7 (0.6)	8.3 (0.6)	12.1 (0.7)	11.8 (0.7)	9.8 (0.6)	9.3 (0.8)

Note: Entries represent means of unemployment indicator variable for individuals age 16-61 in Miami and four comparison cities: Atlanta, Houston, Los Angeles, and Tampa-St. Petersburg. Samples are based on individuals in the labor force. See note to Table 4 for definitions of groups and data sources.

Table 6
Means of Log Wages of Non-Cubans in Miami
By Quartile of Predicted Wages, 1979-85
(standard errors in parentheses)

Year	Mean of Log Wage by Quartile of Predicted Wage				Difference of Means: 4th-1st
	1st Quart.	2nd Quart.	3rd Quart.	4th Quart.	
1979	1.31 (.03)	1.61 (.03)	1.71 (.03)	2.15 (.04)	.84 (.05)
1980	1.31 (.03)	1.52 (.03)	1.74 (.03)	2.09 (.04)	.77 (.05)
1981	1.40 (.03)	1.57 (.03)	1.79 (.03)	2.06 (.04)	.66 (.05)
1982	1.24 (.03)	1.57 (.03)	1.77 (.03)	2.04 (.04)	.80 (.05)
1983	1.27 (.03)	1.53 (.04)	1.76 (.03)	2.11 (.05)	.84 (.06)
1984	1.33 (.03)	1.59 (.04)	1.80 (.04)	2.12 (.04)	.79 (.05)
1985	1.27 (.04)	1.57 (.04)	1.81 (.04)	2.14 (.05)	.87 (.06)

Note: Predicted wage is based on a linear prediction equation for the log wage fitted to individuals in four comparison cities: see text. The sample consists of non-Cubans (male and female, white, black, and hispanic) between the ages of 16 and 61 with valid wage data in the earnings supplement of the Current Population Survey. Wages are deflated by the Consumer Price Index 1980-100.

Table 7
Comparison of Wages, Unemployment Rates, and
Employment Rates for Blacks in Miami and Comparison Cities
(standard errors in parentheses)

All Blacks:				Low-Education Blacks:			
Difference in Log Wages		Difference in Emp/Unemp		Difference in Log Wages		Difference in Emp/Unemp	
<u>Miami - Comparison</u>		<u>Miami - Comparison</u>		<u>Miami - Comparison</u>		<u>Miami - Comparison</u>	
Actual	Adjusted	Emp-Pop Rate	Unemp Rate	Actual	Adjusted	Emp-Pop Rate	Unemp Rate
1979:							
-.15 (.03)	-.12 (.03)	.00 (.03)	-2.0 (1.9)	-.13 (.03)	-.15 (.05)	.03 (.04)	-.8 (3.8)
1980:							
-.16 (.03)	-.12 (.03)	.05 (.03)	-7.1 (1.6)	-.07 (.05)	-.07 (.05)	.03 (.04)	-8.2 (3.5)
1981:							
-.11 (.03)	-.10 (.03)	.02 (.03)	-3.0 (2.0)	-.05 (.05)	-.11 (.03)	.04 (.04)	-7.7 (4.2)
1982:							
-.24 (.03)	-.20 (.02)	-.06 (.03)	3.3 (2.4)	-.17 (.05)	-.20 (.05)	-.04 (.04)	6 (4.7)
1983:							
-.21 (.03)	-.15 (.03)	-.02 (.03)	1 (2.7)	-.13 (.08)	-.13 (.05)	.04 (.04)	-3.3 (4.7)
1984:							
-.10 (.03)	-.05 (.03)	-.04 (.03)	2.1 (2.4)	-.04 (.06)	-.03 (.05)	.05 (.04)	.1 (4.7)
1985:							
-.05 (.04)	-.01 (.04)	-.08 (.04)	-5.5 (2.6)	-.18 (.07)	-.09 (.07)	.00 (.06)	-4.7 (5.8)

Notes: Low education blacks include those with less than 12 years of completed education. Adjusted differences in log wages between blacks in Miami and comparison cities are obtained from a linear regression model that includes education, potential experience, and other control variables: see text. Wages are deflated by the Consumer Price Index (1980=100). Emp-Pop Rate refers to the employment population ratio. Unemp Rate refers to the unemployment rate among those in the labor force.

Table 8
Means of Log Wages of Cubans in Miami:
Actual and Predicted, And By Quintile of Predicted Wages
(standard errors in parentheses)

	Mean of Log Wages in Miami:			Mean of Log Wages By Quintile of Predicted Wages:					Mean Log Wage of Cubans Outside Miami:	Difference in Cuban Wages Miami - Rest-of-US	
	Actual	Predicted	Actual-Predicted	1st	2nd	3rd	4th	5th		Actual	Adjusted
1979	1.58 (.02)	1.73 (.02)	-.15 (.03)	1.31 (.02)	1.44 (.03)	1.64 (.04)	1.80 (.05)	1.71 (.04)		-.13 (.04)	-.10 (.04)
1980	1.54 (.02)	1.68 (.02)	-.14 (.03)	1.25 (.02)	1.40 (.05)	1.59 (.04)	1.81 (.05)	1.69 (.03)		-.12 (.04)	-.08 (.03)
1981	1.51 (.02)	1.68 (.02)	-.17 (.03)	1.23 (.02)	1.43 (.03)	1.55 (.04)	1.80 (.05)	1.63 (.03)		-.13 (.04)	-.09 (.03)
1982	1.49 (.02)	1.68 (.02)	-.19 (.03)	1.27 (.02)	1.43 (.04)	1.50 (.04)	1.77 (.06)	1.71 (.03)		-.22 (.04)	-.12 (.03)
1983	1.48 (.03)	1.65 (.02)	-.17 (.03)	1.16 (.02)	1.41 (.04)	1.56 (.04)	1.80 (.06)	1.62 (.03)		-.14 (.04)	-.08 (.03)
1984	1.53 (.03)	1.69 (.02)	-.17 (.03)	1.20 (.02)	1.40 (.04)	1.63 (.05)	1.88 (.06)	1.63 (.03)		-.10 (.04)	-.08 (.03)
1985	1.49 (.04)	1.67 (.03)	-.18 (.05)	1.19 (.06)	1.43 (.06)	1.53 (.08)	1.80 (.09)	1.77 (.06)		-.27 (.07)	-.18 (.05)

Notes: Predicted wage is based on a linear prediction equation for the log wage fitted to individuals in four comparison cities: see text. Predicted wages for Cubans in Miami are based on coefficients for Hispanics in comparison cities. The adjusted wage gap between Cubans in Miami and Cubans in the rest of the US are obtained from a linear regression model that includes education, potential experience, and other control variables: see text. Wages are deflated by the Consumer Price Index 1980=100.

Table 9
Industry Distributions in Miami and All US:
Based on March CPS Data for 1978-79 and 1983-84

	Average of 1978 and 1979				Average of 1983 and 1984			
	Percent in Ind:		Ratio: Miami/US	Percent Cuban in Miami	Percent in Ind:		Ratio: Miami/US	Percent Cuban in Miami
	Miami	All US			Miami	All US		
1. Agriculture	0.83	2.28	0.36	33.8	2.54	2.33	1.09	27.7
2. Mining	0.00	0.00	0.00	0.0	0.30	0.96	0.31	0.0
3. Construction	7.33	6.08	1.21	31.3	6.69	6.15	1.09	35.6
4. Textiles & Apparel	5.53	2.27	2.44	76.0	4.60	2.17	2.12	80.7
5. Other Mfg.	19.47	21.42	0.49	45.0	9.59	18.42	0.52	40.7
6. Transportation	7.33	3.63	2.02	14.2	7.93	3.30	2.40	14.3
7. Communication	1.34	1.41	0.95	0.0	1.58	1.56	1.02	0.3
8. Utilities	1.43	1.36	1.05	7.0	2.07	1.44	1.44	0.0
9. Wholesale Trade	6.35	3.67	1.73	41.8	6.02	3.95	1.52	41.0
10. Eating & Drinking	5.46	5.33	1.02	22.5	6.43	5.50	1.11	13.7
11. Other Retail Trade	15.76	12.21	1.29	30.7	12.36	11.90	1.04	31.4
12. FIRE	5.76	5.48	1.05	31.7	6.81	6.11	1.11	44.8
13. Less-Skilled Services	4.36	3.07	1.42	14.2	4.91	3.43	1.43	31.8
14. Other Business Services	2.81	3.07	0.92	27.2	3.78	4.23	0.89	20.7
15. Other Personal Services	2.56	1.88	1.36	41.3	2.04	2.13	0.95	24.2
16. Professional Services	16.96	20.35	0.83	18.5	16.96	20.52	0.83	22.0
17. Public Admin	5.70	5.57	1.02	16.1	5.35	5.42	0.99	8.1

Note: Samples consist of all workers age 16-61 with positive earnings and weeks worked in the previous year from 1978, 1980, 1984 and 1985 March CPS. Industry refers to industry on main job last year. Less-Skilled service industries include services to dwellings (part of business services); and private households, hotels and motels, and laundries and garment services (part of personal services). Entertainment industries are included with personal services. Sample sizes are 1,033 (Miami, 1978-79); 1,070 (Miami, 1983-84); 147,989 (All US, 1978-79); and 142,676 (All US, 1983-84).

“IS THE NEW IMMIGRATION REALLY SO BAD?” BY DAVID CARD, JANUARY 2005,
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Is the New Immigration Really So Bad?

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ABSTRACT

This paper reviews the recent evidence on U.S. immigration, focusing on two key questions: (1) Does immigration reduce the labor market opportunities of less-skilled natives? (2) Have immigrants who arrived after the 1965 Immigration Reform Act successfully assimilated? Looking across major cities, differential immigrant inflows are strongly correlated with the relative supply of high school dropouts. Nevertheless, data from the 2000 Census shows that relative wages of native dropouts are uncorrelated with the relative supply of less-educated workers, as they were in earlier years. At the aggregate level, the wage gap between dropouts and high school graduates has remained nearly constant since 1980, despite supply pressure from immigration and the rise of other education-related wage gaps. Overall, evidence that immigrants have harmed the opportunities of less educated natives is scant. On the question of assimilation, the success of the U.S.-born children of immigrants is a key yardstick. By this metric, post-1965 immigrants are doing reasonably well: second generation sons and daughters have higher education and wages than the children of natives. Even children of the least-educated immigrant origin groups have closed most of the education gap with the children of natives.

JEL: J61. Keywords: immigrant competition; assimilation.

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Over the past two decades economists' perceptions of U.S. immigrants have shifted. In the 1970s, immigrants were viewed in a mainly positive light. Chiswick (1978) found that immigrant men earned as much as natives, despite having less education, and concluded that investments in on-the-job training made up for the gap in formal schooling. Grossman (1982) examined the impact of immigration on native wages and concluded that the effects were small. Subsequent research – most notably by Borjas (1985, 1995, 1999, 2003) – has chipped away at both conclusions and gradually led to a more negative picture of U.S. immigration. The shift in perceptions has closely tracked changes in the national origin of U.S. immigrants, often attributed to the 1965 Immigration Reform Act, and a widening gap between the language and culture of natives and immigrants (Borjas, 1999; Lazear, 1999). Concerns over immigration have also been heightened by the decline in low-skilled wages in the U.S., and the belief that some of this may be due to immigrant competition (Borjas, Freeman, and Katz, 1997).

This paper presents an overview and update of the U.S. immigration literature, focusing on two central questions: (1) Do immigrants harm the labor market opportunities of less skilled natives? (2) How do today's immigrants perform in the U.S. labor market, and are they successfully “assimilating”? These questions are at the heart of the debate about immigration in many other countries – including most European nations – and insights from the recent U.S. literature may prove useful in answering the questions elsewhere. My conclusion is that the “revisionist” view of recent U.S. immigration is overly pessimistic. The evidence that immigrants harm native opportunities is slight, while the fear that post-1965 immigrants will never assimilate is belied by the rather surprising educational success of their children.

I. The Characteristics of Immigrants

Most of the immigrants in Chiswick's (1978) landmark study had entered the U.S. under the

provisions of the Immigrant and Nationality Acts of 1924, which established national origin quotas with a strong bias in favor of Northern Europeans.¹ In the 1970 data analyzed by Chiswick, 63 percent of immigrants were born in Europe or Canada (Card, DiNardo and Estes, 2000, Table 6.3). The vast majority of working age immigrants in the U.S. today arrived after the 1965 Immigration Act, which relaxed the quota system and established preferences for people with family members already in the country. The new law, coupled with declining supplies of potential immigrants from traditional source countries such as Britain, Germany, and Italy, and increasing potential supplies from Mexico, Central America, and Asia, have led to a shift in the ethnic composition of immigrants.² In 2000, only 13.6 percent of adult immigrants in the U.S. were born in Europe, while 32 percent were born in Mexico, 16 percent in Central America or the Caribbean, and 26.6 percent in Asia.

As emphasized by Borjas (1985, 1995), the skill characteristics of immigrants in the U.S. are strongly related to their country of origin. For example, country of origin dummies explain 30 percent of the variation in average education levels among immigrants in the 2000 Census.³ Reflecting the high fraction of immigrants from countries like Mexico, the Philippines, Vietnam, and El Salvador (all of which supply relatively low-education immigrants) immigrants as a whole have

¹The law was influenced by research of Carl Brigham (1923), who classified immigrants into four racial categories: "Nordic", "Alpine", "Mediterranean" and "Asian", and argued that members of the Alpine and Mediterranean races had lower intelligence than Nordics. The influence of Brigham's work is illustrated by a headline announcing the new law in the *Los Angeles Times* (13 April 1924): "Nordic Victory is seen in Drastic Reduction."

²The 2000 U.S. Census has information on exact arrival year, and I used this information to examine changes in the fraction of immigrants from different countries before and after 1965. The fraction of Mexican immigrants, for example, is 20.1 percent for 1963-65 arrivals and 20.1 for 1966-68 arrivals. A sharp impact of the law is not discernable in these data, though there is a trend between 1950 and 1975.

³Education levels of immigrants are correlated with education levels in the home country, but there are many interesting exceptions. For example, immigrants from India have the highest average education (average of 15.6 years of completed schooling). Immigrants from Russia are a very close second.

lower average schooling than natives. Table 1 compares the education distributions of natives and two subgroups of immigrants - those who had been in the U.S. at least 5 years at the time of the 2000 Census, and those who had arrived more recently. The recent arrival group is not very different from the earlier arrivals, reflecting the relative stability of immigrant inflow composition since the late 1970s. Nevertheless, both groups have a much higher fraction of people with very low schooling than natives. The excess concentration of immigrants in the "less than high school" category is balanced by relative shortfalls in the number who completed high school but have no further formal schooling (24 percent of immigrants versus 39 percent of natives) and the number with 1-3 years of college (about 15 percent of immigrants versus 24 percent of natives). At the upper end of the education distribution immigrants and natives are very similar, though immigrants are slightly more likely than natives to hold an advanced degree.

The patterns in Table 1 point to two important conclusions. First, labor market competition from immigrants is most intense for natives with the lowest levels of education. While immigrants comprised only 13 percent of the working age population in 2000, they made up 28 percent of the population with less than a high school diploma, and over half of all those with less than 8 years of schooling. For this reason, most studies of immigrant competition have focused on the impacts on very low skilled natives.⁴ Second, the positive effect of immigrants on the relative supply of the people with the lowest levels of education is offset by negative effects on the relative supply of people in the middle of the education distribution, with no effect on the relative supply of those with a bachelor's degree or higher. Arguably, then, immigrant inflows have exerted *upward* pressure on the wage gap between high school graduates and dropouts, and *downward* pressure on the

⁴If immigrants had the same education and other skill characteristics as natives, and if capital is elastically supplied to the relevant labor market, then standard economic models would predict no impact on native wages – see Altonji and Card (1991).

college-high school wage gap.

II. Immigrant Competition and the Labor Market Outcomes of Low Skilled Natives

a. Conceptual Issues

There are two main approaches in the literature to estimating the impact of immigration on native workers. The first – pioneered by Grossman (1982) – relates differences in the relative structure of wages in different local labor markets to differences in the relative supply of immigrants.⁵ The advantage of this approach is that there are many local labor markets in the U.S. with different fractions of immigrants, and samples from the Decennial Censuses can be used to estimate relatively rich models of the local wage structure. The disadvantage is that cities are not isolated economies: people, goods, and services all flow between cities, and depending on how sensitive these flows are to differences in local wages or prices, comparisons across cities may reveal a lot or little about the underlying parameters that theoretically determine the effects of immigration on native opportunities. The second approach is a time series methodology, relating changes over time in immigrant densities to economy-wide measures of relative labor market outcomes. The advantage of this approach is that it can potentially reveal the impact of immigration even when the local markets approach “fails” because of intercity factor mobility or trade (Borjas, Freeman, and Katz, 1996).⁶ The disadvantage is the absence of a clear counterfactual. Inferences from the macro time series approach rely on assumptions about the trends in factors like the degree of skill bias in

⁵This approach is closely related to work on internal migration and local wage structures, including Sjaastad (1962), Topel (1986), and Dahl (2002).

⁶Of course the same arguments about intercity trade and factor mobility also apply across countries. Models of international trade often imply that relative wages in a country are independent of the relative supplies of different skill groups, at least in some range. See Kuhn and Wooten (1991).

recent technological change.

Early studies using the local labor markets approach (Grossman, 1982; Borjas, 1987; Altonji and Card, 1991; Lalonde and Topel, 1991) treated “immigrants” as one type of labor and distinguished between various subgroups of natives in the same city. While simple and intuitively appealing, there are two obvious problems with this framework. One is immigrant heterogeneity: in some cities immigrants are actually more highly skilled than natives, whereas in others the reverse is true.⁷ Thus, it is important to classify the immigrant populations in different cities according to their skill levels. A second problem is that conventional economic models imply that immigrants should only affect relative wages to the extent that they distort the relative supplies of different skill groups. If inflows of unskilled immigrants cause unskilled natives to move out, for example, there may be little discernable effect of immigration on the local wage structure, even though relative demand curves at the local level are downward sloping.

A potentially better way to model the impact of immigration is to assign immigrants and natives to skill groups and to assume that within skill groups, immigrants and natives are perfect substitutes (e.g., Jaeger, 1996; Card, 2001;).⁸ Following this approach, the first step in evaluating the impact of immigration is to assess the effect of immigrants on the relative supplies of different skill groups in different cities. The second step is to then relate the relative wages for different skill groups to the relative supplies in the local labor market. The maintained assumption – that immigrants and natives are perfect substitutes within skill groups – can be tested by examining the

⁷Card (2001, page 23) notes that immigrant men earned more than native men in one third of the largest U.S. cities in 1990.

⁸An alternative approach is to assume that workers with different characteristics sell “bundles” of skills, where the number of latent skills is small. This approach has been suggested to study the structure of wages by age and education (e.g., Welch, 1969) but becomes complex once allowance is made for non-linear pricing of the bundles (J Heckman and Scheinkman, 1987).

stability of immigrant-native wage differences across different labor markets.⁹

b. Effects of Immigration on Relative Supply of Low-Skilled Labor

Some indication of the impact of immigration on the relative size of the dropout labor force in different cities is presented in Table 2. The table shows the fractions of immigrants in all cities and in 15 selected cities in 1980 and 2000, along with the fractions of immigrants and natives with less than 12 years of completed schooling, and the overall fractions of the working age population in each city with less than 12 years of schooling. The data for all cities in the first row of the table reveals three interesting facts.¹⁰ First, the fraction of immigrants in U.S. cities has roughly doubled since 1980, from 9.5 percent to 18 percent. Second, in both 1980 and 2000, slightly more than one-third of immigrants had less than a high school education. Third, the fraction of natives with less than a high school education has fallen sharply, more than offsetting the inflow of less-educated immigrants.¹¹ Thus, despite the upward pressure on the relative supply of dropouts caused by immigration, the overall fraction of dropouts in urban areas fell from 24.3% in 1980 to 17.7% in 2000.

There is a lot of cross-city variation in these patterns, however. The dramatic increase in the fraction of low-education immigrants in Los Angeles, for example, led to a *rise* in the fraction of high school dropouts in the local population. In Pittsburgh and Cleveland, on the other hand,

⁹Under the perfect substitutes assumption, for example, the wage gap between immigrants with less than 12 years of schooling and native high school dropouts should be constant (controlling for age, time in the U.S., etc.). Even if the perfect substitutes assumption is true, the wage gap could vary across cities if immigrants in different cities possess different unobserved skills.

¹⁰The set of all cities includes 272 Standard Metropolitan Statistical Areas in 1980 and 325 Metropolitan Statistical Areas in 2000.

¹¹This is largely a cohort effect, reflecting the steady rise across cohorts in the fraction of high school graduates until cohorts born in the 1950s. See Card and Lemieux (2000, 2001).

immigrant densities are low and have fallen over the past two decades, so the trend in the overall fraction of dropouts closely parallels the trend among natives. Most high-immigration cities, including New York, Houston, San Francisco, and Miami, experienced relatively small declines in the fraction of dropouts between 1980 and 2000, whereas most low-immigration cities, including Philadelphia, Detroit, and Atlanta, experienced bigger reductions.

The question of whether inflows of unskilled immigration have systematically affected the relative supply of dropout labor in different cities is addressed in Figure 1. As motivation for this figure, note that the share of dropouts in the local working age population in city c , $s^d(c)$, is the sum of the share of native dropouts $s^{dn}(c)$ and the share of immigrant dropouts, $s^{di}(c)$. An interesting descriptive regression relates the overall dropout share in a city to the share of immigrant dropouts:

$$s^d(c) = \alpha + \beta s^{di}(c) + e(c),$$

where $e(c)$ is a residual. If inflows of less educated immigrants are offset by outflows of native dropouts (or if less educated immigrants tend to move to cities where there is a bigger positive trend in the educational attainment of the native population), immigration will have little impact on the overall dropout share and the coefficient β will be close to 0. If mobility flows of native dropouts (and trends in native educational attainment) are uncorrelated with the inflow rate of low skilled immigrants, the coefficient β will be close to 1.

As suggested by the data in Table 2, the scatter of points in Figure 1 is more consistent with a value of $\beta=1$ than $\beta=0$. For reference, the graph shows a restricted regression line in which the slope is set to 1. This benchmark provides a reasonable fit, although it tends to under-predict the fraction of dropouts in cities with few immigrant dropouts. In fact, a univariate regression across 325 cities yields an estimate of β equal to 0.79 (with a standard error of 0.03). When controls are added for city size and the fraction of blacks in the city population, the estimate of β rises to 1.01

(with a standard error of 0.03).¹²

Findings similar to those in Figure 1 are reported in Card (2001), using data for 175 cities from the 1990 Census, and defining low skilled workers as those who are predicted to work in low wage occupations based on their age, education, gender, race, ethnicity, and country of origin. In that paper I looked specifically at mobility responses of natives to recent immigrant inflows, and concluded that each new immigrant in the lowest skill group adds about 1 to the net supply of low skilled workers in a city. Focusing on longer term mobility, Card and DiNardo (2000) use a three skill group taxonomy to examine the effect of immigrant inflows on native migration rates between 1980 and 1990. Again, the conclusion is that native mobility has virtually no offsetting effect on the relative supply shocks created by immigration. Indeed, once controls are introduced for city-specific trends in native population growth, the data suggest that native mobility responses may slightly reinforce the relative supply effects of immigration (Card and DiNardo, 2000, Table 2).

A concern with the interpretation of the data in Figure 1 is that unskilled immigrants may be drawn to cities where the relative demand for dropout labor is increasing. One way to partially address this concern is to use historical immigration patterns as instruments for current inflows (Altonji and Card, 1991; Card, 2001). For example, Card and Dinardo (2000, Table 2) report models in which low skilled immigration inflows between 1980 and 1990 are instrumented by the fraction of Mexican immigrants in the city in 1970. These models give no indication that the OLS estimates are biased by local demand shocks.

Although the results in Figure 1 suggest that immigration has a powerful effect on local labor markets, some researchers have argued the opposite. Borjas Freeman and Katz (1997), for

¹²The size controls are the log of the adult population and its square. The regressions are estimated by weighted least squares using the size of the population as weights.

example, claim that native mobility effectively undoes any local impact of immigrant inflows.¹³ Importantly, however, Borjas Freeman and Katz (1997) focus only on total population, not on the relative size of different skill groups. Looking at the California and Texas cities in Table 2 it is very hard to argue that immigration has not had some impact on the fraction of less-educated people in the local labor market. To the best of my knowledge, in fact, all studies that have looked at the *relative* supply impacts of immigration find very large effects on local labor markets.

c. Impacts on Less Skilled Natives

Once it is established that low-skilled immigration increases the relative supply of unskilled workers in local labor markets, the next step is to measure the effects on the relative labor market outcomes of less skilled workers. A simple theoretical framework for this analysis consists of a local production function and a set of per-capita labor supply functions for members of each skill group.¹⁴ Such a model implies that the relative wages and relative employment rates of workers in any two skill groups depend on the relative fractions of the groups in the local population. For example, comparing high school graduates to dropouts, a relative supply/demand model implies that

$$(1a) \quad \log (w^d/w^h) = a_1 + b_1 \log (s^d/s^h) + u_1$$

$$(1b) \quad \log (E^d/E^h) = a_2 + b_2 \log (s^d/s^h) + u_2,$$

¹³Likewise Frey (1995, 1996) reports a strong correlation between immigrant inflows and native outflows. Wright, Ellis, and Reibel (1997) re-examine Frey's specifications and show that his results disappear once controls for city size are added to the model.

¹⁴See e.g., Card (2001). Specifically, consider a production function for local output $y = \beta \sum_j (c_j N_j)^{\sigma-1} s_j^{1-\sigma} (e^j/e^h)^{\sigma-1}$ and supply functions $\log (N^j/P) = \epsilon \log w^j + \phi^j$, where N^j is the number of people employed in skill group j , w^j is the wage of group j , c^j is a relative demand shock, P^j is the population of skill group j , and ϕ^j is a local supply shock. These equations imply a relative labor demand curve $\log (N^j/N^h) = -\sigma \log (w^j/w^h) + (\sigma-1) \log (c^j/c^h)$, and a relative labor supply curve $\log (N^j/N^h) = \log (P^j/P^h) + \epsilon \log (w^j/w^h) + \phi^j - \phi^h$.

where w^d and w^h are the mean wages of dropouts and high school graduates in a city, E^d and E^h are the mean employment-population rates of the two groups, and s^d and s^h are the shares of dropouts and high school graduates in the local population. The coefficients b_1 and b_2 depend on the elasticity of substitution between skill groups (σ) and on the elasticity of the per-capita labor supply functions (ϵ):

$$b_1 = -1/(\sigma + \epsilon), \quad b_2 = -\epsilon/(\sigma + \epsilon).$$

If local labor supplies are perfectly inelastic ($\epsilon=0$) then equation (1a) reduces to the familiar model used in studies of education-based wage gaps (e.g., Katz and Murphy, 1992).

Apart from the potential problem posed by unobserved relative demand and supply shocks, the key problem for interpreting estimates based on equations (1a) and (1b) is that the slope of the local relative demand curve may be uninformative about the degree of substitutability between skill groups. In particular, a Heckscher-Ohlin style model of local economies suggests that relative wages may be uncorrelated with relative labor supplies, even though at the national level relative wages are negatively related to relative supplies. I return to this point below.

Some simple reduced form evidence on the impact of unskilled immigration on relative wages and relative employment of low-skilled natives is presented in Figures 2 and 3. Figure 2 shows the gap in mean log wages between native male high school graduates and native male dropouts in each of the 175 largest U.S. cities in 2000, plotted against the fraction of immigrant dropouts in the local labor market.¹⁵ Figure 3 shows the log of the ratio of the employment-population rates of high school graduates and dropouts, also plotted against the fraction of

¹⁵The wage gaps were estimated as follows. First, separate models were estimated for mean log wages of native male dropouts and high school graduates, including unrestricted city dummies (for 325 MSA's) a quartic function of age, dummies for black race and Hispanic ethnicity, and interactions of the black and Hispanic dummies with age and ages squared. The wage gaps are estimated as the differences in the city dummies from these two models (re-normalized to have the same mean as the raw data).

immigrant dropouts.¹⁶ The graph for relative wages shows little connection between native wages and the fraction of immigrant dropouts, while the graph for relative employment suggests a slightly positive correlation. Estimated regression models fit over all 325 cities confirm this impression: the estimated regression slope for wages is statistically insignificant (slope = -0.06; standard error = 0.06) while the estimated slope for relative employment is significantly positive (slope = 0.07, standard error = 0.02), suggesting a small negative impact of more unskilled immigrants on native dropout employment.

Formal estimation results for the local demand/supply system are presented in Table 3, which shows both ordinary least squares (OLS) estimates and instrumental variables (IV) estimates using the fraction of immigrant dropouts as an instrument for the relative supply of high school versus dropout labor. The IV results are quite similar to the OLS results, and nearly as precise, reflecting the strong first stage.¹⁷ The estimates suggest there is no relationship between the relative supply of high school dropouts and their relative wages, but point to a small negative impact of relative supply on relative employment. These findings are quite similar to the results in Card (2001) using data for 1990 and occupation-based skill groupings.¹⁸ As in most of the previous work looking at local labor market impacts of immigration, there is a surprisingly weak relationship between immigration and less-skilled native wages (see Friedberg and Hunt, 1995 and Borjas, 1994).

¹⁶The local employment population rates of the two groups were estimated as the city dummies in separate linear probability models for the event of working in the previous year, in models with the same control variables as the first stage wage models.

¹⁷The coefficient of the fraction of immigrant dropouts in a model for the log relative supply of high school versus dropout labor is -6.10, with a standard error of 0.20 (F-statistic = 902). The fraction of immigrant dropouts explains 74 percent of the variation in the relative supply variable across the 325 MSA's in the 2000 Census.

¹⁸In my 2001 study I presented estimates for 6 occupation groups in 175 cities. Interestingly, the estimated relative supply effects were typically smaller when the sample was restricted to low-skilled occupations.

This pattern has persisted despite steady inflows of relatively unskilled immigrants that have created ever greater differences across cities in the relative supply of dropouts over the past two decades.

d. Explaining the Absence of Local Labor Market Impacts

A variety of explanations have been offered for the finding that wages of less skilled natives are insensitive to the relative supply pressure created by unskilled immigrants. The first is unobserved relative demand shocks, which enter the relative wage and employment equations and are potentially correlated with the relative share of low skilled workers.¹⁹ The leading solution to this problem is to instrument relative supply (or the relative number of low skilled immigrants) with information on historical immigration patterns. Immigrants from a given source country tend to go to the same places they went many years ago, and relative skill levels of the immigrants from a country are highly correlated over time, so instruments based on historical immigration patterns have reasonable predictive power. My reading of the evidence is that instrumenting sometimes moves the coefficients in the “right direction”, but does not change the conclusion that immigrant impacts are small (see for example, Lewis (2003) who analyzes changes in relative wages in major cities between 1980 and 1990 using OLS and IV methods).

A second explanation is that, as predicted by a Heckscher-Olin (HO) model, variation in the relative supply of unskilled labor across local labor markets is absorbed by changing industry structure. As pointed out by Lewis (2003), the magnitude of any HO-style adjustments can be calculated by looking at data on industry shares across cities. To illustrate this point, start with an identity that expresses the overall fraction of dropouts employed in a given city, $s^d(c)$, as a weighted

¹⁹For example, using the model outlined in footnote 14, the residual in the relative wage equation is $u_i = (\sigma - 1)/(\sigma + \epsilon) \log(c^d/c^h) - (\phi^d - \phi^h)/(\sigma + \epsilon)$.

sum of the industry shares in the city, times the dropout intensity in each industry:

$$\begin{aligned}
 (2) \quad s^d(c) &= 1/N(c) \sum_i N_i^d(c) \\
 &= \sum_i N_i(c)/N(c) \cdot N_i^d(c)/N_i(c) \\
 &= \sum_i \lambda_i(c) \cdot s_i^d(c),
 \end{aligned}$$

where $N(c)$ is total employment in city c , $N_i^d(c)$ is the number of dropouts employed in industry i in city c , $N_i(c)$ is total employment in industry i in city c , $\lambda_i(c) \equiv N_i(c)/N(c)$ is the employment share of industry i in city c , and $s_i^d(c) = N_i^d(c)/N_i(c)$ is the share of dropout workers in industry i in city c . It follows that the gap between $s^d(c)$ and the national average fraction of dropouts, s^d , can be written as the sum of a “between industry component” B representing shifts in the relative fractions of different industries in the city, a “within industry component” W , representing shifts in the relative fraction of dropout workers in each industry, and an interaction component I :

$$(3) \quad s^d(c) - s^d = B(c) + W(c) + I(c),$$

where

$$\begin{aligned}
 B(c) &= \sum_i s_i^d [\lambda_i(c) - \lambda_i] \\
 W(c) &= \sum_i \lambda_i [s_i^d(c) - s_i^d] \\
 I(c) &= \sum_i [\lambda_i(c) - \lambda_i] \times [s_i^d(c) - s_i^d].
 \end{aligned}$$

The HIO theorem states that under certain conditions *all* of the variation in the share of dropout labor across cities can be absorbed by expansion or contraction of high-dropout-intensity industries (i.e., via the $B(c)$ term), with no city-level variation in relative wages or the dropout intensity of any particular industry.²⁰

In Card and Lewis (2005), we used data on employment classified by 3 digit industry from

²⁰These conditions would include infinitely elastic supplies of capital, perfectly integrated product markets, and the existence of at least one industry that produces a tradeable good or service that has a dropout intensity that exceeds the maximum dropout share in any city.

the 2000 Census to compute the terms in equation (2) for each of 150 larger cities. We then performed a series of regressions:

$$(4a) \quad B(c) = a_B + b_B [s^d(c) - s^d] + e_B(c)$$

$$(4b) \quad W(c) = a_w + b_w [s^d(c) - s^d] + e_w(c)$$

$$(4c) \quad I(c) = a_I + b_I [s^d(c) - s^d] + e_I(c).$$

Since (3) is an identity, $b_w + b_B + b_I = 1$. A strict version of HO implies $b_B = 1$.

Figure 4 plots the between-industry component $B(c)$ against the excess fraction of dropouts in each of the 150 larger MSA's. For reference, the figure also shows the 45 degree line: if changing industry structure accounted for the absorption of immigrants the points would lie along this line. Although the points suggest an upward-sloping relationship, the slope is relatively modest, suggesting that changing industry structure accounts for only a small share of the absorption of dropouts. Indeed, the OLS estimate, reported in the first column of Table 4, is 0.22, and is significantly different from 1. By contrast, Figure 5 plots the within-industry component $W(c)$ against the excess fraction of dropouts in each city. This component is more highly correlated with the dropout share: as shown in column 2 of Table 4, the estimate of b_w is 0.76. Though not shown in a figure, the interaction terms are relatively small, and essentially uncorrelated with differences across cities in the share of dropout workers. The estimate of b_I in column 3 of Table 4 is 0.02 (with a very small R-squared = 0.03).

The MSA's with relatively high dropout shares are labeled in Figures 4 and 5. Interestingly, most of these MSA's are comprised of counties in California and Texas with substantial agricultural employment. Since agriculture relies on the availability of land resources, it is debatable whether the high employment shares of agriculture in these MSA's represents a *reaction* to abundant supplies of less-educated labor. Rather, it seems more likely that the relative supplies of less-educated labor

in these MSA's are driven by the availability of farm jobs.

The framework of equation (3) can be used to examine the contribution of the changing scale of specific industries to the absorption of local supplies of dropout labor. For example, the contribution of industry i is $s_i^d [\lambda_i(c) - \lambda_i]$, which is excess employment share of the industry in city c relative to its national average share, multiplied by the average dropout intensity of the industry. Columns 4-6 of Table 4 show estimates of models similar to (4a), focusing on the absorption contributions of agriculture, textiles apparel and footwear industries, and a set of low-skilled service industries.²¹ These 3 industry clusters together account for most of the total between industry effect: agriculture alone accounts for nearly one-half. Overall, though there is some evidence that textiles and apparel manufacturing tends to cluster in cities with high dropout shares, these results suggest that most of the absorption of unskilled labor across cities occurs within very narrow industries. Apart from a few small sectors it is difficult to find much evidence of HO-style industry adjustment across cities.

Similar conclusions were reached by Lewis (2003), who examined changes in the relative absorption of 4 education groups over the 1980-1990 period. Lewis used Census data to estimate first-differenced versions of equation (4b) for each skill group.²² He also compared OLS estimates to IV estimates that used immigrant inflows based on historical immigration patterns as instruments for the changes in the relative shares of each skill group. As in the 2000 cross-section, the industry composition effects over the 1980-1990 period are only weakly related to local skill-group-specific

²¹We include textiles, apparel, knitting mills, footwear, and leather industries as apparel, and the following as "low skilled services": building services, landscaping services, carwashes, landscaping, dry cleaning and laundry services, private household services, and other personal services.

²²One difference is that Lewis regresses the between-industry effects on the population share of the skill group in the local labor market, rather than the employment share. An advantage of a first differenced approach is that it eliminates the confounding caused by permanent factors like differences in the amount of agricultural land in an MSA.

population growth. Lewis' estimates of b_0 for manufacturing industries (which are arguably best able to respond to local factor availability) are very close to 0, while his estimates for all industries range from 0 to 0.08. He also reports parallel specifications in which the dependent variable is the within-industry relative employment term. These are much more strongly correlated with relative population growth, accounting for 90 percent of the adjustment to skill-group specific relative supply shocks.

The evidence suggests that HIO-style changes in industry structure play relatively little role in explaining how cities like Los Angeles were able to absorb massive inflows of relatively uneducated immigrant workers over the past two decades. Instead, most of the less-educated labor was absorbed by city-specific within-industry increases in dropout intensity, which took place despite any corresponding changes in the relative wages of dropout workers.

One possible explanation for this pattern is that local relative demand shocks for dropout workers are "caused" by the presence of low skilled immigrants. For example, Acemoglu's (1998) model of endogenous technological change suggests that firms will innovate in a direction to take advantage of more readily available factors, even in the absence of relative wage changes. Beaudry and Green's (2003) model of technological adoption has a similar flavor. Lewis (2004) presents some of the first direct evidence for this mechanism, using data on the number of advanced technologies adopted by manufacturing plants in the late 1980s and early 1990s. He finds that controlling for very detailed (4 digit) industry effects, the adoption of advanced technologies by individual plants is significantly reduced by the presence of a greater relative supply of unskilled labor in the local labor market. These results are potentially consistent with the evidence on within-industry absorption in Table 4. More work is clearly needed to better understand how firms choose which technologies to use, and whether the choice is influenced by the relative availability of

different skill groups.

e. Aggregate Evidence on Relative Wages of Dropouts

My reading of the evidence is that the two main mechanisms that economists have proposed to explain the adjustment of local labor markets to immigration-based supply shocks – selective mobility and HO-style realignment of local industry structure – are relatively unimportant, and that the bulk of the absorption occurs within industries. In view of the weak correlation between local wages and local immigrant supplies, some researchers – notably Borjas, Katz and Freeman (1996, 1997) and Borjas (2003) – have argued that aggregate time series analyses are required to measure the full impacts of immigration on native wages. A complete analysis of aggregate trends is beyond the scope of this paper. However, in light of the data in Table 1 showing the relative education distribution of immigrants, it is useful to briefly examine trends in the relative wages of high school dropouts.

Figure 6 plots two measures of the wage gap between high school dropouts and high school graduates: the mean log wage differential between the groups, and the average return per year of schooling among those with 12 or fewer years of schooling, multiplied by 4. These wage gaps refer to the hourly earnings of men age 18-64 in the 1980-2002 March Current Populations Survey (CPS), and are estimated from models that include controls for a cubic in potential experience and dummies for black race and Hispanic ethnicity. For reference Figure 6 also plots the college-high school wage premium, estimated from samples of men with 12 or 16 years of schooling. Since 1979 the wage premium for high school graduates relative to dropouts has fluctuated in the range of 25 to 30 percent, with a modest rise in the early 1980s and more or less steady declines since then. The return per year of schooling for those with 0-12 years of school has fluctuated between 7 and 8

percent, and also increased slightly in the early 1980s. In contrast, the college-high school wage premium has varied a lot more, rising by about 12 log points in the early 1980s, and nearly 22 log points over the past two decades.

Although immigration presumably exerts downward pressure on the relative wages of dropouts, the wage gap between dropouts and high school graduates has been nearly constant since 1980, and has fallen by more than 50 percent relative to the gap between high school graduates and holders of bachelor's degrees.²³ The absence of an aggregate trend in the relative wages of high school dropouts is consistent with the remarkable stability of the relative wage of dropouts across different local labor markets. Of course, even taking account of unskilled immigrant inflows the relative supply of dropouts has declined over the past two decades, so depending on what is assumed about the rate of growth of relative demand for dropouts versus high school graduates, one can argue that immigration lowered the wages of the least educated natives relative to the counterfactual trend.²⁴ Without knowing the trend in relative demand for dropouts, however, the aggregate data are uninformative, so estimates of the effect on native wages amount to simply multiplying the relative share of dropouts attributable to immigration by some estimate of the elasticity of substitution (Johnson, 1980; Borjas, 2003).

²³According to the data in Table 1, the presence of immigrants increased the relative supply of dropouts in 2000 by about 21 percent, reduced the relative supply of high school graduates by about 5 percent, and had no net effect on the relative supply of people with a college degree or more. Assuming that the elasticity of substitution between education groups is -1.4 (Borjas, 2003; Katz and Murphy, 1992) and ignoring labor supply effects, the presence of immigrants in the U.S. labor market should have raised the wage premium for high school graduates relative to dropouts by about $26/1.4 = 18$ log points, in the absence of other factors.

²⁴In the 1980 Census, 26.3 percent of the population age 18-64 were dropouts, 39.2 percent had exactly 12 years of schooling, 19 percent had some college, and 15.6 had a college degree or more. Comparing these numbers to those in Table 1 there was a 35 percent decline in the log relative supply of dropout versus high school labor between 1980 and 2000.

11. Assimilation of Immigrants

While immigrant men in the 1970 Census earned about as much as natives, a wage gap opened up over the 1970s and has persisted. Currently, immigrant men's hourly wages are about 20 percent lower than natives', while immigrant women's wages are about 10 percent lower.²⁵ Given the gap in education between immigrants and natives, and the importance of education in the U.S. wage structure, this is not too surprising. Moreover, the quality of education in many of the major immigrant sending countries is arguably below the quality in the U.S. (Bratsberg and Terrell, 2002), and many immigrants have limited English skills, implying that immigrant human capital is even lower than observed education would suggest.

Following Chiswick (1978) there is an extensive literature on the question of whether the immigrant-native earnings gap narrows with time in the U.S. Such "earnings assimilation" could be due to formal or informal training, acquisition of language skills, or a variety of other processes.²⁶ Borjas (1985, 1995) noted that a synthetic cohort analysis like Chiswick's will overstate earnings growth if more recent immigrant arrival cohorts have lower unmeasured skill characteristics than earlier arrivals, as seems to have been true in 1980 and 1990. Moreover, many immigrants return to their home country within a few years, and others move back and forth, further complicating inferences from cross sectional data. Limited evidence from true longitudinal data (Lubotsky, 2000) suggests that immigrant earnings rise with time in the U.S., though the gains (about 10-15 percent in the first 20 years in the U.S.) are not enough to offset the 35-40 percent immigrant-native earnings

²⁵These numbers come from an analysis of March CPS data from 1995 to 2002.

²⁶Cortes (2004) shows that recent immigrant arrivals have relatively high rates of participation in schooling. She finds that 1975-80 immigrant arrivals show a gain in English proficiency between 1980 and 1990. Manning (2003, chapter 6) notes that some fraction of life cycle earnings growth is due to accumulated "search capital". Immigrants may start off with less efficient search and gradually catch up to natives.

gap at arrival.

Although the precise magnitude of immigrant earnings assimilation will probably be debated for many years (see Duleep and Regets, 2002 for a recent analysis), few of the 40 percent of immigrants who arrive in the U.S. as adults without a high school credential will ever earn as much as average natives. Likewise, the 22 percent of immigrants with a college degree or more will earn more than average natives.²⁷ In my opinion, a more interesting question is how well the U.S.-born children of immigrants are doing. Focusing on the status of immigrants' children is important for a number of reasons. Second generation immigrants are a growing fraction of the population, accounting for 10 percent of teenagers nationwide.²⁸ Nearly all of them will spend their entire lives in the U.S., and will pay taxes and receive income support payments. Thus, the success of immigrant children is an important component of the long run costs and benefits of immigration. For these and other reasons the relative success of the second generation provides a key gauge of the extent to which their parents assimilated into the U.S.

Table 5 presents some simple descriptive regression models showing the relative status of immigrants and second generation immigrants in the 1995-2002 CPS. (I define second generation immigrants as people born in the U.S. with at least one foreign-born parent). The upper panel of the table shows results for men, while the lower panel shows results for women. The first two columns shows models for years of schooling and the probability of working in the previous year, fit over the entire population of 21-64 year olds, while columns 3-6 show models for log hourly wages,

²⁷Using March CPS data for 1995-2002, I estimate that immigrants with at least a college degree earn about 30 percent more than average natives.

²⁸Since 1994, the CPS has asked individuals where their parents were born. Using March 1995-2002 CPS files, I estimate that about 11 percent of people age 16-19 were born in the U.S. with at least one immigrant parent.

fit to workers only.

Looking first at the education models, immigrants have about 1.2 - 1.4 fewer years of education than natives, standardizing for their age. (The raw gaps are a little smaller). On the other hand, second generation immigrants have 0.3-0.4 years *more* education than people whose parents were born in the U.S. (the “third and higher” generation). Among men, immigrants are only slightly less likely to work than members of third and higher generation, while second generation men are a little more likely to work. Among women there is a larger immigrant gap in the probability of working (a 13.6 percent lower annual employment rate than natives) but again second generation women are a little more likely to work than third and higher generation natives.

The models in columns 3 and 4 present wage models that control for age and geographic location, but not for education. Among men, immigrants have 18-23 percent lower wages than third and higher generation natives, while second generation immigrants have 4-8 percent higher wages. The wage gaps for second generation women are about the same as for second generation men, but for immigrant women the wage gap is smaller than for immigrant men, perhaps reflecting the relative selectivity of labor force participation among immigrant women. When controls are added for education, the wage gap for immigrant men falls to about 11 percent while the gap for immigrant women falls to 7 percent. The wage gaps for second generation men and women also fall, to under 2 percent in each case. Thus, the higher wages of second generation immigrants are largely explained by their geographic location and their higher education.

The models in the final column of Table 5 add two additional controls for black race and Hispanic ethnicity. Reflecting the fact that many immigrants are Hispanic, and that third and higher generation Hispanics earn a little less than non-Hispanics, these added controls reduce the immigrant wage gaps slightly, to 8 percent for men and 5 percent for women, and slightly increase

the wage advantage of second generation immigrants.

The results in Table 5 suggest a couple of conclusions. First, immigrant workers in the U.S. labor market today (over 90 percent of whom arrived after 1965) earn less than natives, but the magnitude of the wage gaps are not enormous. After controlling for education, which explains about an 11 percent gap in immigrant earnings for both men and women, the gaps are under 10 percent – comparable to the wage gaps for blacks or native Hispanics. Second, the children of immigrants do well, on average, with most of their wage advantage relative to natives attributable to higher education. Despite the lower education of their parents, children born to immigrant parents seem to catch up and even surpass the levels of children born to U.S. natives.

An interesting perspective on this catch-up phenomenon is provided by examining differences across parental source countries (Borjas, 1993; Card Dinardo and Estes, 2000). Looking in the recent CPS data, one can identify second generation men and women whose parents were from different countries, and compare the earnings or educational attainment of each second generation group against the corresponding outcomes for their parents. This idea is illustrated in Figures 7a and 7b, which show mean education levels for second generation younger adults (age 21-40) in the 1995-2002 March CPS by country of origin of their father, plotted against mean levels of education for fathers of children age 0-15 from the same source country in the 1980 Census. For reference, I have also shown the point representing members of the third and higher generation, and the estimated regression line across the 39 country of origin groups shown in the figures.²⁹

The figures suggest that there is a strong intergenerational correlation in education that is

²⁹I selected countries of origin with at least 50 observations for second generation sons and daughters. The largest group is Mexico (4998 second generation children). Italy, Canada, Cuba, Germany and the Philippines also have at least 500 second generation children. The smallest origin groups are Panama (54 observations), Austria (53 observations) and Israel (51 observations).

similar for sons and daughters. Indeed, the coefficient estimates and R-squared statistics are nearly identical for sons and daughters (slope=0.30 for men, standard error=0.03, R-squared=0.77; slope=0.29 for women, standard error=0.03, R-squared=0.77). Interestingly, the coefficient of 0.3 for the effect of fathers education on either sons or daughters is almost identical to the estimates obtained in a micro level regression using samples of men and women from the General Social Survey.³⁰ Thus, the intergenerational transmission of education is about the same for families of immigrants as for other families in the US. In particular, there is no evidence that second generation immigrants' education outcomes regress toward the mean more slowly than other children.

Even more interestingly, in both Figure 7a and 7b the fitted line for the second generation group over-predicts the outcomes for natives: by 0.71 years for men and by 0.77 years for women. This means, for example, that second generation sons whose fathers had as little as 10.4 years of schooling (2.3 years below the average for native fathers) ended up ahead of their third generation peers. Even sons of Mexican immigrants, whose fathers had 5.5 years of schooling less than native-born fathers in 1980 (7.3 years versus 12.8 years for native-born fathers) ended up with 12.2 years of schooling, closing 80 percent of the education gap faced by their fathers.³¹

Finally, it is interesting to compare the results in Figures 7a and 7b with similar results from an earlier generation of immigrant children. Card, DiNardo and Estes (2000) conduct a parallel analysis using 1970 Census data for second generation immigrants, and 1940 Census data for their parents. The estimated intergenerational coefficients in education are 0.41 (standard error 0.10) for

³⁰I used the 1972-1996 GSS. The sample has 6667 men and 7745 women between the ages of 21 and 45 with observed father's education. In a regression controlling for age and age-squared, the effect of father's education is 0.32 for men (standard error 0.01) and 0.30 for women (standard error 0.01).

³¹The mean level of education of third and higher generation sons is 13.29 (14.4 for daughters), while the mean level of education of second generation Mexican sons is 12.19 (12.41 for daughters).

men and 0.47 (standard error 0.08) for women. These point estimates are a little higher than the ones for more recent cohorts, though relatively imprecise. If anything, however, they suggest that the rate of assimilation (which is 1 minus the intergenerational correlation) is slightly *faster* for more recent cohorts than for older ones.

These results paint a relatively optimistic picture of the success of post-1965 immigrants. Conditional on their parents' human capital, the U.S.-born children of these immigrants have done remarkably well. Indeed, of the 39 largest country-of-origin groups, sons from 33 groups and daughters from 32 groups have higher average educational attainment than the children of natives.

III. Conclusions

Immigration is a major policy concern in many countries around the world. Two important questions that economic research can answer concern the impact of immigrants on the labor market opportunities of natives, and the relative success of immigrants in integrating into the domestic economy. Economists have struggled with both questions for the past couple of decades, with varying degrees of success, and the lessons from the U.S. literature provide potentially valuable lessons to researchers in other contexts.

On the question of immigrant competition the U.S. has a structural advantage, since there are many large U.S. cities, with widely varying levels of immigration, and samples from the Decennial Censuses can be used to develop detailed models of local labor market outcomes. New evidence from the 2000 Census re-confirms the main lesson of earlier studies: Although immigration has a strong effect on relative supplies of different skill groups, local labor market outcomes of low skilled natives are not much affected by these relative supply shocks. Recent evidence on the

response of local industry structure to immigration-induced supply shocks shows that the absorption of unskilled immigrants takes place within industries in high-immigrant cities, rather than between industries, as implied by simple trade models. It remains a fascinating question how firms in a given industry can adapt their production technology so closely to local supplies of different types of labor without substantial changes in relative wages.

As the evidence has accumulated over the past two decades that local labor market outcomes are only weakly correlated with immigrant densities, some analysts have argued that the cross-city research design is inherently compromised by intercity mobility of people, goods, and services. Underlying this argument is the belief that labor market competition posed by immigration *has* to affect native opportunities, so if we don't find an impact, the research design *must* be flawed. The leading alternative to a local labor market approach is a time series analysis of aggregate relative wages. Surprisingly, such an analysis shows that the wages of native dropouts (people with less than a high school diploma) relative to native high school graduates have remained nearly constant since 1980, despite pressures from immigrant inflows that have increased the relative supply of dropout labor, and despite the rise in the wage gap between other education groups in the U.S. economy. While the counterfactual is unknown, it is hard to argue that the aggregate time series evidence points to a negative impact of immigration unless one starts from that position *a priori*.

On the question of immigrant assimilation, a major constraint in the U.S. literature has been the absence of true longitudinal data. Nevertheless, I believe that a narrow focus on immigrant earnings is misplaced. Few of the 40 percent of immigrants who come to the U.S. without completed high school education will ever catch up with the average earnings of natives. Most of their U.S.-born children, however, will catch up with the children of natives. Evidence on the intergenerational progress of immigrants' children is now becoming available, and points to above-

average levels of educational attainment, even for children whose fathers had much lower schooling than native-born fathers. The relatively strong educational progress of second generation immigrants, together with the limited evidence of adverse effects on less skilled natives, suggest that the new immigration may not be so bad after all.

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Table 1: Educational Attainment of Natives and Immigrants in 2000 Census

Highest Education:	All	Natives	Immigrants:		
			All	In US 5+ Yrs.	In US < 5 Yrs.
Dropouts	17.8	14.7	38.2	37.6	40.3
<i>Of Which:</i>					
1-8 Years Completed Schooling	5.3	2.8	21.5	21.3	22.2
9-11 Years Completed Schooling	12.6	11.9	16.7	16.3	18.1
High School Diploma	37.2	39.2	24.0	24.3	23.1
Some College (including Associates Degree)	22.6	23.7	15.5	16.3	12.5
Bachelors Degree	14.8	15.0	13.2	12.9	14.0
Advanced Degree	7.7	7.5	9.2	8.8	10.1
<i>Of Which:</i>					
Masters Degree	5.2	5.2	5.4	5.1	6.3
Professional Degree	1.7	1.6	2.3	2.2	2.4
Doctorate	0.8	0.7	1.5	1.5	1.4

Note: Based on tabulations of individuals age 18-64 in 2000 Census. High school diploma group includes people with less than 1 year of college (8 percent of the overall sample).

Table 2: Immigrant Densities and the Relative Fractions of Less Educated Workers, Selected Cities 1980 and 2000

	Percent Immigrants In City	<u>Percent Dropouts:</u> Among Immigrants Among Natives		Percent Dropouts In City	Percent Immigrants In City	<u>Percent Dropouts:</u> Among Immigrants Among Natives		Percent Dropouts In City
All Cities	9.5	38.9	23.0	24.3	18.0	37.8	13.0	17.7
New York	23.2	39.6	26.4	29.5	41.8	32.0	17.5	23.6
Los Angeles	25.3	49.2	19.5	27.0	47.8	47.2	14.4	30.1
Chicago	11.8	44.0	23.7	26.1	21.2	37.7	11.8	17.3
Philadelphia	4.9	31.1	25.2	25.5	8.3	21.9	13.3	14.0
Detroit	6.3	34.3	25.8	26.4	8.6	26.2	14.4	15.5
Houston	9.4	46.1	25.1	27.1	26.0	51.6	15.5	24.9
Dallas	5.1	43.7	24.3	25.3	19.7	54.2	13.6	21.6
Washington DC	9.6	18.3	16.8	16.9	20.6	25.8	9.9	13.2
Boston	10.3	35.6	15.6	17.6	17.8	24.0	7.9	10.7
San Francisco	17.0	28.4	14.3	16.7	36.4	26.6	6.9	14.0
Miami	41.1	38.5	23.3	29.6	61.2	33.3	18.6	27.6
Atlanta	3.1	14.8	24.9	24.6	12.1	34.0	13.6	16.1
Pittsburgh	2.6	28.1	21.5	21.7	2.6	12.5	10.4	10.5
Cleveland	5.8	34.5	24.0	24.6	5.6	19.7	14.2	14.5

Note: Based on tabulations of 1980 and 2000 Census public use files. "All cities" includes 272 Standard Metropolitan Areas in 1980 and 325 Metropolitan Statistical Areas in 2000. Boundaries of some cities change between 1980 and 2000. Samples include individuals age 18-64 only.

Table 3: Effects of Relative Supply on the Relative Wages and Employment of Native Male Dropouts

	Relative Outcomes of Native Male Dropouts:			
	Fraction Employed		Mean Log	
	Last Year		Hourly Wage	
	OLS	IV	OLS	IV
Log Relative Supply of Dropouts vs. High School Graduates	-0.013 (0.003)	-0.012 (0.003)	0.006 (0.009)	0.010 (0.010)
R-squared	0.056	0.035	0.001	0.003

Note: Standard errors in parentheses. All models fit to sample of 325 Metropolitan Statistical Areas using weighted least squares. City data are derived from the 2000 Census public use files and pertain individuals age 18-64. Outcomes are adjusted differences in employment-population or mean log wages between high school dropouts and high school graduates -- see text. Instrument is fraction of low education immigrants in city.

Table 4: Regression Models Measuring Cross-City Absorption of Excess Dropout Workers

	<u>Effect Across All Industries:</u>			<u>Industry-Specific Expansion:</u>		
	Between Industry (1)	Within Industry (2)	Interaction (3)	Agric. (4)	Apparel & Textiles (5)	Low Skill Services (6)
Excess Fraction of Dropout Employment in City	0.22 (0.02)	0.76 (0.02)	0.02 (0.01)	0.02 (0.01)	0.02 (0.01)	0.02 (0.01)
R-squared	0.37	0.84	0.03	0.17	0.24	0.33

Note: All models estimated on sample of 150 larger MSA's, using 264 industry cells per city in columns 1-3. Regressions are weighted by city size. See text for definitions of industries used in columns 4-6.

Table 5: Education and Earnings Gaps Between Immigrants, Second Generation, and Others

	Fit to All Individuals:		Fit to Workers Only:			
	Years of Education	Percent Working	Models for Log Hourly Wage (coefficients x 100)			
	(1)	(2)	(3)	(4)	(5)	(6)
<u>Estimates for Men:</u>						
Immigrant	-1.24 (0.02)	-0.6 (0.2)	-18.3 (0.4)	-23.4 (0.4)	-11.1 (0.4)	-8.0 (0.4)
Second Generation	0.45 (0.02)	0.8 (0.2)	8.0 (0.5)	3.6 (0.5)	1.5 (0.5)	2.3 (0.5)
Controls for Age	yes	yes	yes	yes	yes	yes
Controls for Region/Urban	no	no	no	yes	yes	yes
Control for Education	no	no	no	no	yes	yes
Control for Race/Ethnicity	no	no	no	no	no	yes
<u>Estimates for Women:</u>						
Immigrant	-1.37 (0.01)	-13.6 (0.2)	-11.8 (0.4)	-18.6 (0.4)	-7.1 (0.4)	-5.4 (0.4)
Second Generation	0.31 (0.02)	0.5 (0.3)	8.3 (0.5)	3.0 (0.5)	1.2 (0.5)	1.9 (0.5)
Controls for Age	yes	yes	yes	yes	yes	yes
Controls for Region/Urban	no	no	no	yes	yes	yes
Control for Education	no	no	no	no	yes	yes
Control for Race/Ethnicity	no	no	no	no	no	yes

Notes: Standard errors in parentheses. Models estimated on pooled sample of 1995-2002 March Current Population Surveys. Samples include individuals age 21-64 only. Hourly wage is estimated from data on wage and salary earnings last year, weeks worked last year, and usual hours per week last year. Wages are censored below at \$2/hour (in 2002 dollars) are set to \$2 and above at \$200 per hour in 2002 dollars. Controls for Region/urban are 8 region dummies and dummy for living in Metropolitan Area. Control for education is linear term in years of education. Controls for race/ethnicity are dummies for black race and Hispanic ethnicity.

Figure 1: Fraction of Immigrant Dropouts and Overall Fraction of Dropouts

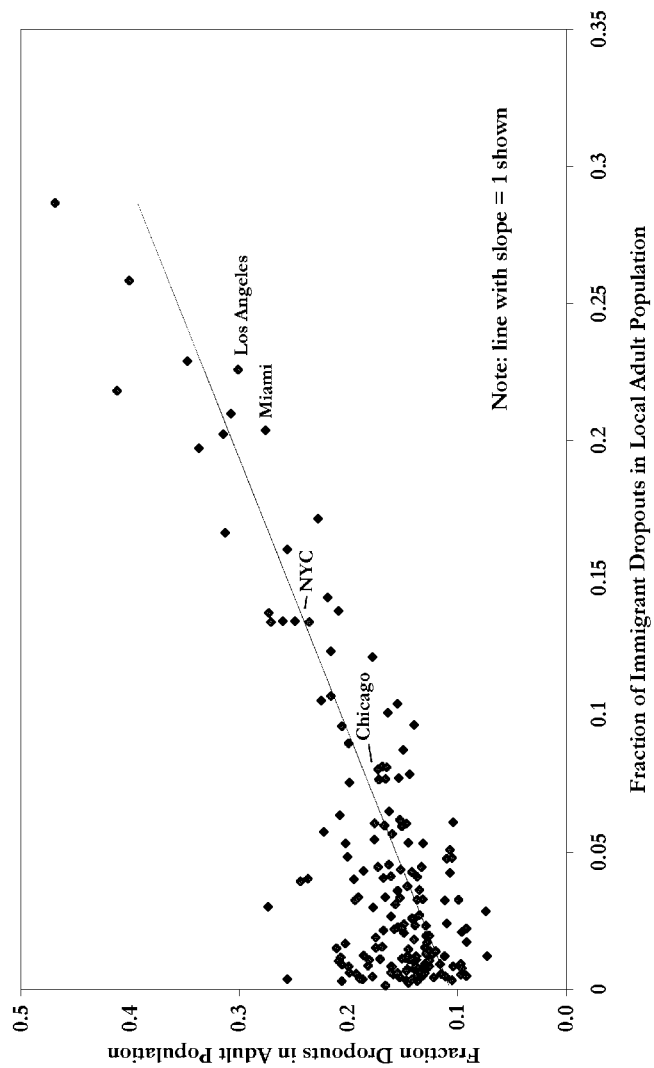


Figure 2: Relative Wage of High School Grads and Dropouts vs. Fraction Low Education Immigrants

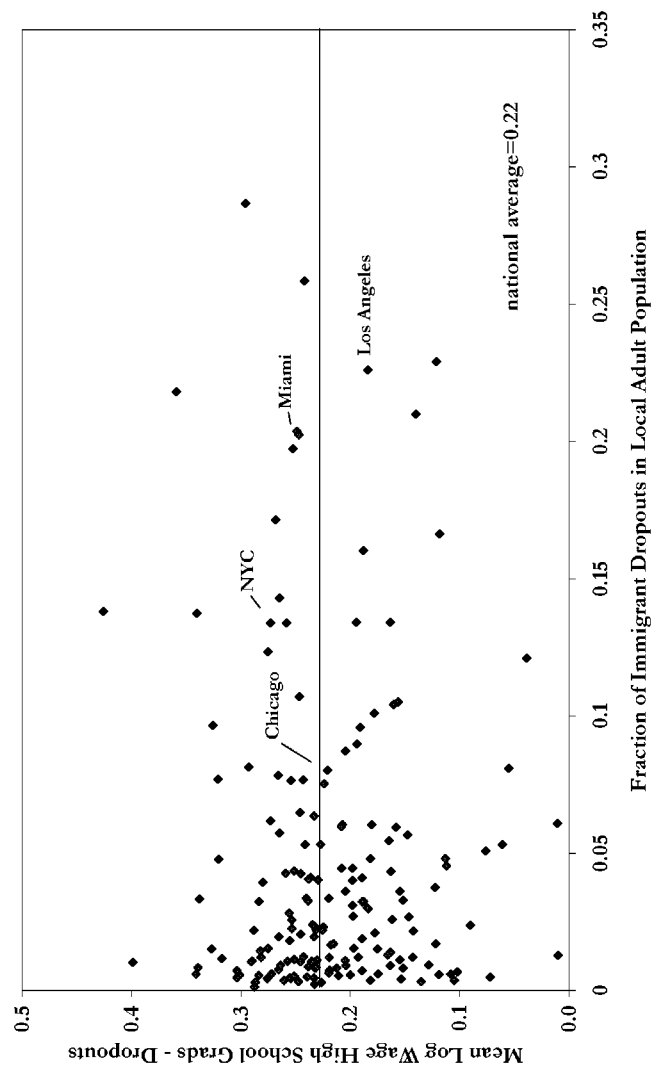


Figure 3: Relative Employment of High School Grads and Dropouts vs. Fraction Low Education Dropouts

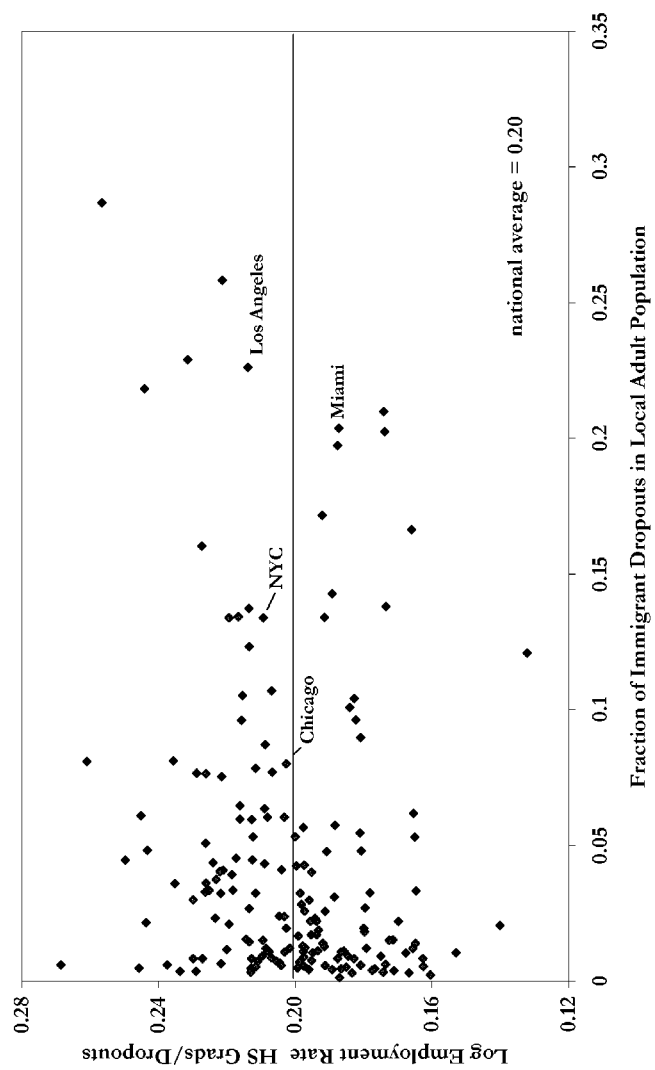


Figure 4: Contribution of Between-Industry Component to Absorption of Dropouts

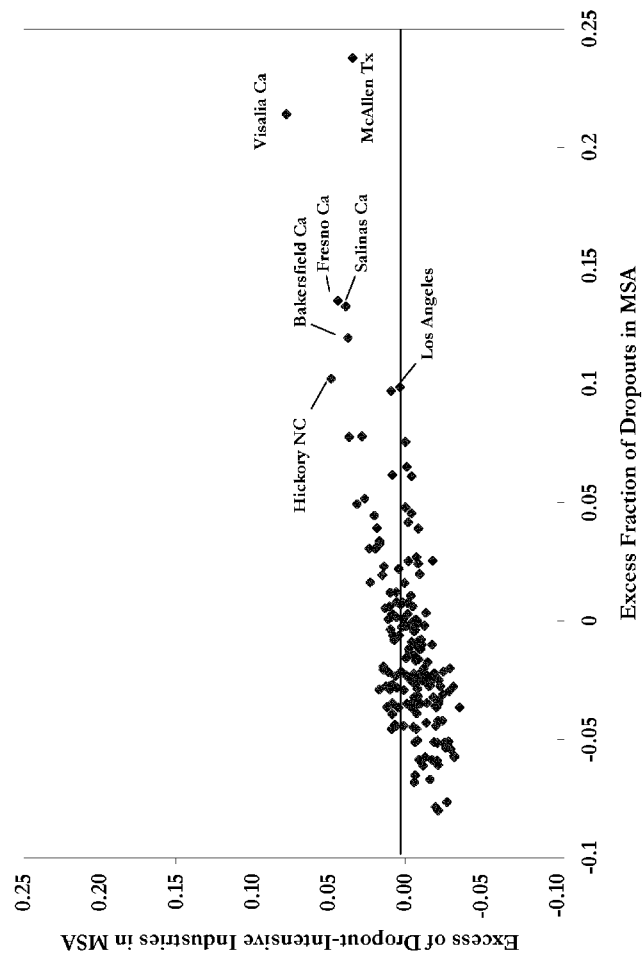


Figure 5: Contribution of Within-Industry Component to Absorption of Dropouts

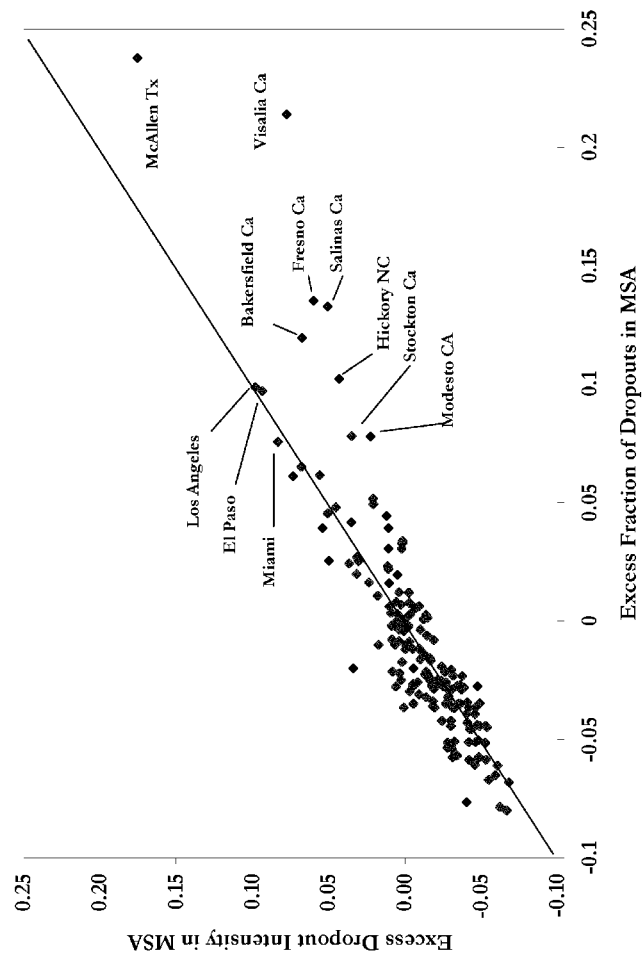


Figure 6: College/High School and High-School/Dropout Wage Gaps

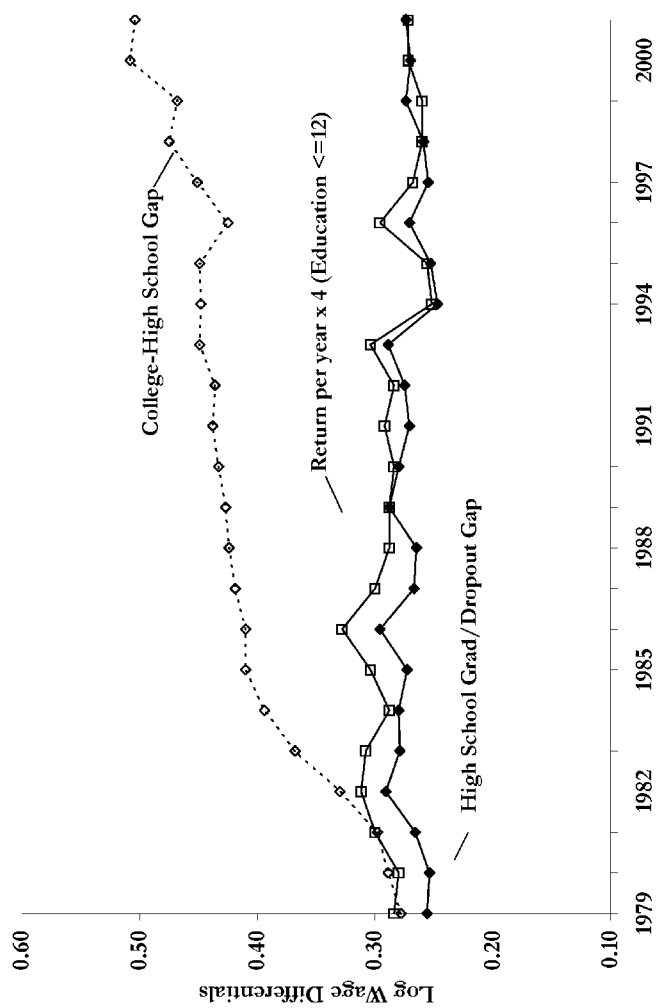


Figure 7a: Father-Son Intergenerational Correlation in Education

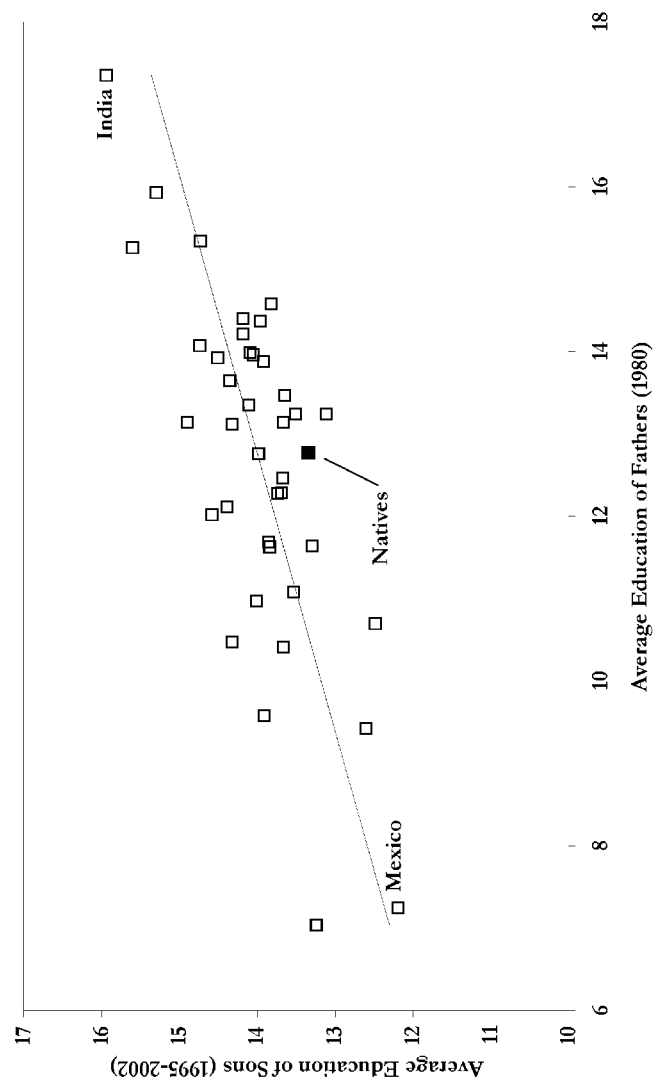
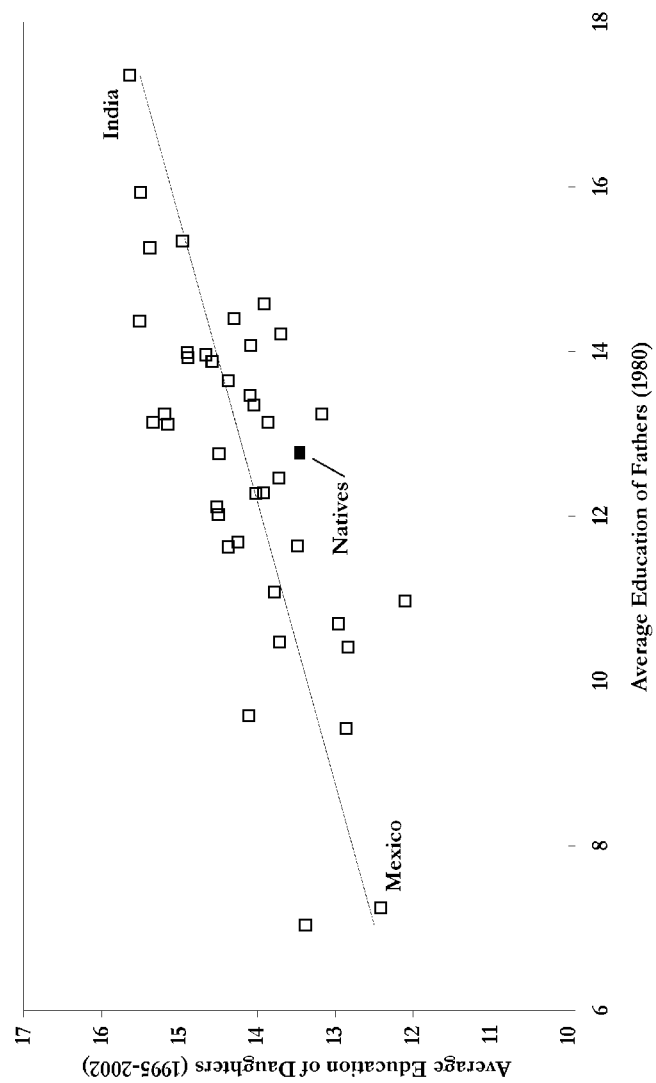


Figure 7b: Father-Daughter Intergenerational Correlation in Education



"DOLLARS WITHOUT SENSE: UNDERESTIMATING THE VALUE OF LESS-EDUCATED WORKERS" BY WALTER A. EWING, PH.D. AND BENJAMIN JOHNSON OF THE IMMIGRATION POLICY CENTER, MAY 2007, SUBMITTED BY THE HONORABLE ZOE LOFGREN



IMMIGRATION POLICY CENTER

...providing factual information about immigration and immigrants in America

POLICY BRIEF

Dollars without Sense: Underestimating the Value of Less-Educated Workers

by Walter A. Ewing, Ph.D. and Benjamin Johnson*

A recent report from the Heritage Foundation is one in a long line of deeply flawed economic analyses which claim to estimate the contributions and "costs" of workers based solely on the amount of taxes they pay and the value of the public services they utilize.

Opponents of immigration like to portray immigrants, especially less-educated immigrants who work in less-skilled jobs, as a drain on the U.S. economy. According to this line of thinking, if the taxes paid by immigrants do not cover the cost of the public services and benefits they receive, then immigrants are draining the public treasury and, ostensibly, the economy as a whole. However, this kind of simplistic fiscal arithmetic does not accurately gauge the impact that workers of any skill level have on the economy. It also is a dehumanizing portrayal of all workers, foreign-born and native-born alike, who labor for low wages in physically demanding jobs that are essential to the economic health of the nation.

Flawed Analysis and Inflated Statistics

A prime example of a flawed analysis using this narrow fiscal accounting is an April 2007 report from the Heritage Foundation which claims to demonstrate that "low-skill" households headed by individuals with less than a high-school diploma impose a large fiscal burden on the majority of U.S. taxpayers. The Heritage report is, for the most part, aimed at the native-born, who comprise about two-thirds of all adults age 25 and older in the United States without a high-school diploma.¹ But it also is a backhanded slap at immigrants and immigration reform in that the

authors repeatedly warn that any changes in immigration policy which allow more "low-skill immigrants" into the country "would dramatically increase the future fiscal burden to taxpayers."² The Heritage report relies on inflated statistics and highly dubious assumptions to arrive at these conclusions. Missing from the report is any discussion of the high demand for workers to fill less-skilled jobs in the U.S. economy, or the forces that create and sustain poverty, or the public policies that might actually alleviate poverty and raise wages. In effect, the report disparages both native-born and foreign-born low-wage workers for not pulling themselves up by their own bootstraps.

The report's analysis begins by adding up how much was spent by federal, state, and local governments on various public benefits and programs in Fiscal Year (FY) 2004. The report then apportions a share of those expenses to low-skill households based either on the amount that these households actually "cost" (in public assistance, for instance) or in proportion to their share of the total U.S. population. Finally, the cost of government expenditures presumably attributable to low-skill households is compared to how much those households paid in federal, state, and local taxes. But in order to inflate the costs of the government services and benefits allegedly received by low-skill households, the report

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throws in just about everything but the kitchen sink.

Immigration and Public Benefits

As one would expect, the report calculates the cost of “direct benefit programs,” principally Social Security and Medicare, and “means-tested benefits”—such as Medicaid, the State Children’s Health Insurance Program (SCHIP), Temporary Assistance to Needy Families (TANF), Supplemental Security Income (SSI), and food stamps—that were utilized by some low-skill households in FY 2004. According to the report, the average low-skill household consumed \$21,989 in such benefits: \$10,026 in direct benefits (including \$5,811 for Social Security and \$3,800 for Medicare) and \$11,963 in means-tested benefits (including \$6,381 for Medicaid and SCHIP, \$900 for housing assistance, \$865 for SSI, and \$695 for food stamps).³ At the same time, low-skill households paid an average of \$9,689 each in federal, state, and local taxes. From the report’s perspective, the difference between the taxes paid and the direct and means-tested benefits received by each low-skill household, \$12,300, is a net “cost” that is imposed on other taxpayers.⁴

The report conveniently neglects to mention that the vast majority of immigrants are not eligible to receive any of these benefits for many years after their arrival in the United States, if ever. For instance, legal permanent residents (LPRs) must pay into the Social Security and Medicare systems for approximately 10 years before they are eligible to receive benefits when they retire. LPRs can not receive SSI, which is available only to U.S. citizens, and are not eligible for means-tested public benefits until 5 years after receiving their green cards.⁵ The 12 million undocumented immigrants in the United States, who comprise nearly one-third of all immigrants in the country,⁶ are not eligible for any kind of public benefits—ever. Even if undocumented immigrants were to receive

legal status under one of the legislative proposals currently under discussion in Congress, they would not be eligible for green cards for 8 years and would then have to wait 5 years more before becoming eligible for public benefits. Attributing tens of thousands of dollars per year in public benefits to low-income immigrant households is therefore highly misleading.

Questionable Accounting

The authors of the Heritage report are not content to vilify low-income families for sometimes needing public assistance in order to keep their heads above water. The report also adds up the shares of even more government expenditures that are allegedly attributable to low-skill households: public primary, secondary, post-secondary, and vocational education; budgetary outlays for roads, parks, sewers, and food safety and health inspections; military spending and government expenditures for veterans programs, international affairs, and scientific research; and even interest payments on government debt. As a result of this creative accounting, the Heritage report concludes that the average low-skill household received up to \$33,395 more in government benefits and services than it paid in taxes in FY 2004.⁷

This kind of analysis reflects a fundamental misunderstanding of the nature of many government expenditures. The report dismisses the notion that some government spending truly represents a “social investment” that can not be counted as a cost attributable to any particular group of people.⁸ However, investments in public infrastructure, public health, and public education are necessary to maintain the strength and competitiveness of the U.S. economy and U.S. workforce as a whole, to the benefit of all. Moreover, children whose educations are counted in the Heritage report as “costs” attributable to their parents grow up to become tax-paying adults who often earn higher

incomes than their parents. This is especially true among the children of immigrants.

The report also attributes to low-income households the cost of political decisions over which they have no control. For instance, in the Heritage report's accounting, low-income households are responsible for a share of the hundreds of billions of dollars appropriated for the war in Iraq. They also are responsible for a portion of the interest payments on the national debt stemming from the enactment in recent years of tax cuts for corporations and wealthy individuals. From the report's perspective, even immigrants who have just arrived in the United States are presumably saddled with some of these costs the minute their feet touch the ground. Assigning costs such as these to low-income families in general, and low-income immigrant families in particular, is dubious to say the least.

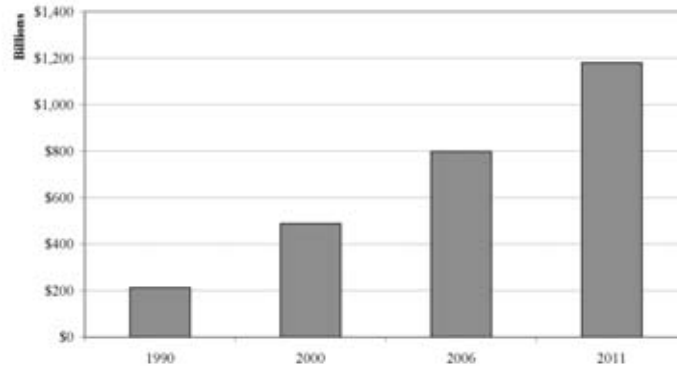
Missing the Big Picture

Creative accounting aside, the simplistic "fiscal distribution analysis"⁹ on which the Heritage report is based does not come close to accurately gauging the impact of any group on the U.S. economy as a whole. A comparison of the taxes that people pay and the public benefits and services they consume at a particular point in time does not measure the larger economic impact that they have through their consumer purchasing power and

entrepreneurship, both of which create new jobs. Nor does it account for the upward economic mobility that many low-income families experience from generation to generation, particularly immigrant families. It is for these reasons that, according to Gerald D. Jaynes, Professor of Economics and African American Studies at Yale University, "analyses that purport to measure the benefits of immigration by comparing taxes paid by immigrants to the cost of public services they consume are egregiously incompetent and misleading."¹⁰

Consider, for instance, the substantial economic contributions of Hispanics that have nothing to do with their tax payments. Among Hispanics age 25 and older, 41 percent lack a high-school diploma and 58 percent are foreign-born.¹¹ Yet, according to the Selig Center for Economic Growth at the University of Georgia, Hispanic buying power totaled \$798 billion in 2006 and is expected to increase to \$1.2 trillion by 2011 (Figure 1).¹² Moreover, the U.S. Census Bureau estimates that in 2002, 1.6 million Hispanic-owned firms provided jobs to 1.5 million employees, had receipts of \$222 billion, and generated payroll of \$36.7 billion.¹³ These hundreds of billions of dollars in purchasing power and entrepreneurship are enormous contributions to the U.S. economy that are not captured in the simple arithmetic of a taxes-paid vs. benefits-received model.

Figure 1: U.S. Hispanic Buying Power, 1990-2011



Source: Jeffrey M. Humphreys, "The multicultural economy 2006," *Georgia Business and Economic Conditions* 66(3), Third Quarter 2006: 10.

In addition, the Heritage report claims that estimates of upward educational mobility tend to be "exaggerated."¹⁴ However, numerous studies have demonstrated just the opposite to be true, particularly among Hispanics and immigrants. According to a RAND Corporation study, "2nd and 3rd-generation Hispanic men have made great strides in closing their economic gaps with native whites. The reason is simple: each successive generation has been able to close the schooling gap with native whites which then has been translated into generational progress in incomes. Each new Latino generation not only has had higher incomes than their forefathers, but their economic status converged toward the white men with whom they competed."¹⁵ A study by sociologist Richard Alba found that each generation of Mexican-origin individuals born in the United States improved upon their parents' educational attainment by roughly 2.5 years.¹⁶ And an Urban Institute study found that "[b]y the second generation, immigrants

overall end up doing as well as, or in some instances, better than third generation non-Hispanic white natives in terms of their educational attainment, labor force participation, wages, and household income."¹⁷

Ignoring Demographic Reality

In portraying less-educated people in the United States as fiscal freeloaders, the Heritage report fails to mention that the U.S. economy generates a high demand for workers to fill less-skilled jobs requiring little formal education; particularly service jobs such as food preparation and serving, and building and grounds cleaning and maintenance. According to the Bureau of Labor Statistics, total employment in service occupations will increase by 19 percent between 2004 and 2014, second only to professional and related occupations.¹⁸ Half of the 20 occupations expected to experience the greatest job growth will require only short-term on-the-job

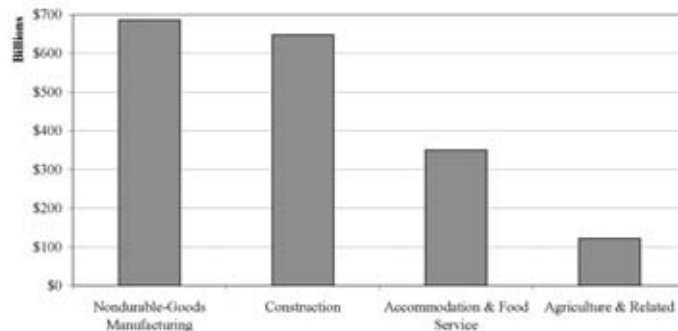
training.¹⁹ Moreover, there will be about 25 million job openings (new jobs plus job turnover) for workers with a high-school diploma or less education during this period, amounting to 45 percent of all job openings.²⁰

At the same time that the U.S. economy continues to produce less-skilled jobs, the native-born labor force is steadily growing older and better educated. The Bureau of Labor Statistics predicts that the labor force age 55 and over will grow by an average of 4.1 percent per year from 2004 to 2014, compared to a growth rate of 0.3 percent per year among workers age 25 to 54.²¹ Moreover, the share of native-born adults age 25 and older with less than a high-school diploma dropped from about 23 percent in 1990 to 11 percent in 2006.²² Despite the demographic challenges posed by these trends, the Heritage report offers no suggestions as to how the growing number of less-skilled jobs could be filled in the absence of immigrant workers without somehow persuading native-born workers with higher levels of education

to forgo higher-skilled jobs in favor of work as busboys and janitors.

The Heritage report also overlooks the fact that many higher-income workers would not be earning higher incomes if not for the labor of their lower-wage counterparts. Workers with different levels of education and different skill sets complement, rather than compete with, each other in the labor market. Less-skilled workers increase the productivity, and therefore the wages, of higher-skilled workers.²³ In addition, the report fails to account for the value that is added to the economy as a whole by the industries in which less-skilled workers tend to be employed. For instance, according to estimates by the Department of Commerce, nondurable-goods manufacturing (textiles, apparel, etc.) added \$685.5 billion to the U.S. Gross Domestic Product (GDP) in 2006, construction added \$647.9 billion, accommodation and food services contributed \$349.9 billion, and agriculture and related industries added \$122.4 billion (Figure 2).²⁴

Figure 2: Value Added to U.S. GDP by Industries Employing Large Numbers of Less-Educated Workers



Source: U.S. Department of Commerce, Bureau of Economic Analysis, Industry Economic Accounts, Value Added by Industry (<http://www.bea.gov/industry/gotables>).

Immigration Innuendo

To the extent that the Heritage report mentions immigration at all, it is to raise the specter of immigration reform unleashing a flood of low-wage immigrants into the U.S. labor market and dramatically increasing the fiscal burden of U.S. taxpayers. The authors support this grim scenario by citing another Heritage report from May 2006 that presented inflated estimates of the increase in legal immigration that allegedly would result if the Senate's "Comprehensive Immigration Reform Act of 2006" (S. 2611) were to become law. The 2006 report claimed that the bill would allow anywhere from 66 million to 217 million new immigrants into the United States over the next 20 years. The outlandishness of these projections is evident in the fact that the estimate of 217 million is 70 million more than the combined populations of Mexico, Belize, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama.²⁵ The 2006 report arrived at these estimates largely through statistical slight of hand in which many categories of immigrants were double counted.²⁶

In adding up the fiscal "costs" of immigrants, both Heritage reports overlook that immigrants are, on average, less costly than the native-born on a number of budgetary fronts. For instance, immigrants are less likely to receive public benefits such as TANF, Medicaid, and SCHIP. A report from the Center on Budget and Policy Priorities found that the "percentage of low-income noncitizen children who participate in Medicaid or SCHIP fell from 28.6 percent in 1996 to 24.8 percent in 2001." Similarly, "participation by noncitizens in the Food Stamp Program declined 64 percent between 1996 and 2000."²⁷ Immigrants also are less likely to utilize hospital emergency rooms.²⁸ A report by the University of California-Los Angeles and the Mexican government found that under 10 percent of recent Mexican immigrants (legal and undocumented) who had been in the United States for fewer than ten years reported

using an emergency room in 2000, compared to 20 percent of native-born whites and Mexican Americans.²⁹ And immigrants are less likely to be in prison at taxpayer expense. Among men age 18-39 (who comprise the vast majority of the prison population), 0.7 percent of the foreign-born were behind bars in 2000, compared to 3.5 percent of the native-born.³⁰

The Heritage report also fails to consider the fiscal costs imposed on U.S. taxpayers by many presumably "high-skill" individuals with higher educations. As the accounting frauds and tax scandals perpetrated in recent years by executives at corporations like Enron, WorldCom, and Adelphia Communications illustrate, very wealthy, educated people often exact enormous costs on the U.S. economy and society. Moreover, many wealthy individuals pay relatively little in taxes as a result of loopholes in the tax code. And tens of billions in workers' tax dollars flow to corporations every year through government subsidies, bailouts, and other forms of "corporate welfare."

Conclusion

The conclusions of the Heritage report notwithstanding, workers who earn low wages are not to blame for the fact that the United States still produces less-skilled jobs, or does not have wage and labor laws sufficient to keep all workers above the poverty line, or does not have a public-education system that prevents students from falling through the cracks before earning a high-school diploma. Yet the authors of the Heritage report seem to suggest that all workers who have not finished high school, be they native- or foreign-born, are nothing more than a drag on the U.S. economy. But a person's value, economic or otherwise, cannot be measured or predicted by his or her level of formal education. There are many examples of less-educated workers who have defied all expectations and contributed enormously to our economy and society. Notable examples include self-made billionaires David Murdoch and Kirk

Kerkorian, businessmen Ray Kroc and Dave Thomas (the founders of McDonald's and Wendy's, respectively), and newscaster Peter Jennings—all of whom were high-school dropouts.

In a telling statement, the authors of the Heritage report maintain that, "to make the average low-skill household fiscally neutral (taxes paid equaling immediate benefits received plus interest on government debt), it would be necessary to eliminate Social Security, Medicare, all 60 means-tested aid programs and cut the cost of public education in half."³¹ They do not even consider options

like implementing progressive reforms to the tax code, or raising the minimum wage, or investing more in public education and community development programs to lower drop-out rates. Rather, the authors of the Heritage report seem to view U.S. workers without a high-school diploma as dead weight that should, ideally, be cut loose. This kind of perspective is callously inhumane, is insulting to the millions of native-born and foreign-born workers who fill less-skilled but economically important jobs, and reflects a basic misunderstanding of the relationship between immigration and the U.S. economy.

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Endnotes

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"THE STATE OF CIVIL RIGHTS" BY THEODORE M. SHAW FROM *THE STATE OF BLACK AMERICA 2007*, PUBLISHED BY THE NATIONAL URBAN LEAGUE, SUBMITTED BY THE HONORABLE SHEILA JACKSON LEE

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The State of Civil Rights

by Theodore M. Shaw, J.D.

The status of African Americans, more than any other group in the United States, has been defined and impacted by law. Although the days of Jim Crow, sanctioned by law, are long gone, black Americans, by experience, continue to look to the law for protection against discriminatory treatment and for the elusive ideal of equal justice. *The State of Black America 2006 Report* defined the state of civil rights as "most precarious."¹ Sadly, a year later, the state of civil rights is as precarious as ever.

Supreme Court Shift

In 2005, with the retirement of Associate Justice Sandra Day O'Connor and the death of Chief Justice William Rehnquist, African Americans joined the rest of the nation in anticipating the replacements for the new vacancies. Appellate Judge John Roberts was first nominated to replace Justice O'Connor, but upon the death of his mentor, Chief Justice William Rehnquist, Judge Roberts was nominated to fill the Court's top seat. President Bush then nominated White House Counsel Harriet Miers to the O'Connor seat, but her nomination provoked strong opposition among conservatives and she quickly withdrew. Third Circuit Court of Appeals Judge Samuel Alito was then nominated for Justice O'Connor's seat.

Judge Roberts' nomination was opposed by virtually every civil rights organizations representing African Americans based on his long record of opposing the Voting Rights Act and other civil rights remedies. Nevertheless, Judge Roberts was confirmed by the Senate as Chief Justice of the United States by a 78-22 vote on September 29, 2005.

Judge Alito was also opposed by leading civil rights organizations based

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on his extensive record as an appellate court judge in civil rights cases. He was confirmed as Associate Justice of the United States Supreme Court on January 31, 2006 by a 58-42 vote. Supreme Court observers and practitioners agree that the addition of Chief Justice Roberts and Associate Justice Alito pushes the Court even further into the conservative camp. While the late Chief Justice was staunchly conservative, Justice O'Connor was often the center—or "swing vote"—of the Court. For example, Justice O'Connor joined with Justices John Paul Stevens and David Souter, Stephen Breyer and Ruth Bader Ginsberg, to uphold the University of Michigan's affirmative action plan in 2003.² The new Chief Justice and Justice Alito are likely to vote with the conservative wing of the Court, thereby guaranteeing it a narrow majority and shifting the balance.

With the ascension of these new justices to the Supreme Court, it appears that the United States has entered into a period of time in which the longstanding role of the law as a force for continued progress by African Americans has changed.

School Desegregation Revisited

While school desegregation appears to many Americans to be yesterday's issue, it is under threat today. Two cases that could significantly impede voluntary school integration efforts were argued in the U.S. Supreme Court in December of 2006. These cases are important not just on their own terms, but also because of their potential reach. The days of mandatory desegregation—born as a result of *Brown v. Board of Education*³—are all but over. The Supreme Court has not only made it easier for school districts to end their voluntary school desegregation efforts, it has allowed school districts to re-segregate under "neighborhood school" assessment plans.

In the case currently pending in the Supreme Court, school boards in Louisville, Kentucky and in Seattle, Washington determined that they desired to maintain some measure of integrated schools on a voluntary basis. In order to do so, each school district denied assignments if they increase racial imbalance. However, white plaintiffs filed lawsuits against each district alleging that the consideration of race—a necessary component in any attempt to maintain integrated schools—constitutes racial discrimination.

The ideological underpinnings of the Seattle and Louisville cases are the same as recent decisions by the U.S. Supreme Court upholding the limited use of race by colleges and universities seeking diversity in student enrollment. However, as in these previous cases, those challenging the desegregation/diversity efforts contend that any consideration of race for a non-remedial purpose is unconstitutional or otherwise illegal. Thus, all voluntary and conscious efforts to address racial inequality—scholarships, mentoring, outreach, and other programs targeted at African Americans—are in the crosshairs. Plainly stated, programs that encourage more blacks to pursue PhD's, mathematics and science degrees, that create "pipelines" into corporate America, that counter crises among black men or create scholarships programs (public and private) for black students, or otherwise help blacks overcome our long history of inequality rooted in the legacy of slavery and Jim Crow segregation, will be illegal if our adversaries prevail.

While the Supreme Court's affirmative action decisions should not be up for reconsideration in the Louisville and Seattle cases, affirmative action foes nonetheless hope that this case will help to erode and eventually lead to their reversal.

Meanwhile, they do not await Supreme Court action. In Michigan, Proposition 2, a ballot initiative parroting California's Proposition 209, which banned affirmative action in education, employment and contracting, passed in November 2006. As a result, the victory in the *Grutter* case no longer has any force in Michigan, the very state in which it arose. Ward Connerly, the African-American business man who promoted Proposition 209, joined with Jennifer Gratz, a plaintiff in the University of Michigan cases, to act as the public face of Proposition 2. Voters were told that the proposition requires "color-blindness" and prohibits discrimination, a seductively idealistic message. However, the truth is that the measure's sole purpose was to ban affirmative action programs that have provided opportunities for African-Americans and other people of color, and women. Connerly has vowed to take the anti-affirmative action ballot initiative across the country.⁴

These measures—and those who support them—ignore the plain fact that massive segregation and educational inequality persist. As we watch the

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federal courts abandon their protection of school desegregation efforts, we continue to face the challenge of how to improve the quality of education for African American students, the vast majority of whom attend public schools. Facial re-segregation and concentrations of poverty make this task considerably more difficult. Although escape hatches in the form of vouchers and charter schools are available for a relative few, we remain challenged to reform public school education for the many.

The No Child Left Behind Act, the centerpiece of the Bush Administration's education policy, is due to be reauthorized in 2006 and, thus, looms large in the political debate. The outcome of the reauthorization effort could have a substantial impact on black children particularly and educational equality in general. Ironically, while the Justice Department's office of Civil Rights claims to oppose race-conscious measures, the No Child Left Behind Act itself is the very essence of race-conscious legislation; it requires the collection of disaggregated data by race to measure student performance on standardized tests.

Voting Rights

In August of 2006, President Bush signed the Fannie Lou Hamer, Rosa Parks, and Coretta Scott King Voting Rights Act Reauthorization and Amendments Act, which renewed the expiring provisions of the Voting Rights Act. These provisions included Section 5, which required certain jurisdictions with a history of discrimination and low minority voter participation to seek approval for changes in electoral processes either from the Justice Department or from the federal district court in Washington, D.C. The law has been a powerful deterrent to schemes to dilute minority voting strength. Section 203 of the Act, which provided for language assistance in designated jurisdictions, was also renewed, as were provisions providing for election monitors. The reauthorization also included two legislative fixes for Supreme Court decisions that had limited the Voting Rights Act's effectiveness. For example, the Supreme Court had ruled in *Reno v. Bossier Parish School Board*⁵ that a school board election plan that made it virtually impossible for black voters to elect their preferred candidates to a school board that never had black representation did not violate Section 5 because it was not retrogressive. In other words the Court appeared to say, "If you never

had anything, and the electoral plan was rigged to make sure you never get anything, you are not worse off than you were before." The amended Act makes clear that Section 5 of the Voting Rights Act was intended to protect against attempts to keep minority voters from gaining strength. The second legislative fix addressed *Georgia v. Ashcroft*, a Supreme Court case that weakened Section 5.⁶ The Voting Rights Act has been called "the crown jewel of civil rights litigation", and its extension was nominally supported by the Republicans and Democrats. Media coverage, for the most part, treated extension as a *fait accompli*. Behind the scenes, however, there were intense battles over the language of the Act that went to the core question of its constitutionality and effectiveness. The battle over the 2006 extension of the Voting Rights Act was fought below the surface while media and most elected officials predicted smooth sailing. Right up to the moment the Act was signed into law, there were attempts to drop time bombs into the legislative history that would explode during post-enactment litigation. Those attempts were thwarted and the legislative history presents a strong and overwhelming case for re-authorization. The Act was signed into law and extended for an additional twenty-five years. Not surprisingly, however, the newly-enacted law was attacked almost immediately. In a lawsuit filed against a small municipal utility district in the Austin, Texas area, plaintiffs challenged the constitutionality of the newly extended Act, claiming that it is an unwarranted and intrusion into local governmental affairs by the federal government. Black and Latino voters, represented by the NAACP Legal Defense Fund, the Mexican American Legal Defense and Educational Fund (MALDEF), the Lawyers Committee for Civil Rights Under Law, American Civil Liberties Union (ACLU), League of United Latin American Citizens (LULAC) among others, have intervened to defend the Act.

Housing

Housing segregation remains a hallmark of American life, with black Americans the most highly, segregated group, even adjusting for economic status.⁷ Housing strongly defines other opportunities—the schools our children attend, the jobs we seek and hold, where we vote, the economic conditions in which we live, etc. As the gap between the wealthy and the poor continues to widen in the United States, affordable housing is becoming

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more difficult to find. Fair Housing Act enforcement, while alone insufficient to address the growing crisis of the unavailability of affordable housing, is an indispensable tool in the quest to improve the life conditions of African Americans.

Criminal Justice

Perhaps in no other area are the statistics and the conditions of black Americans more compelling than in the arena of criminal justice. According to the 2007 National Urban League Equality Index, African Americans are seven times more likely to be imprisoned as whites. One in 8 black males in their twenties is incarcerated on any given day.⁸ These conditions are simply not sustainable without serious cost to the society at large. As dire as current conditions are, they could get worse: according to the Sentencing Project, if current trends continue, one of every three black males born today will be imprisoned at some point in their lifetime.⁹

The collateral effects of the massive incarceration of African American men and women are devastating to their lives, and to the lives of their families and communities. For example, a felony conviction can bar an individual from public housing, federal education loan programs, employment, and from exercising the right to vote. In short, those who are convicted of a felony experience what Columbia University Professor Manning Marable has called "civic death"¹⁰.

Legislators are loathe to change drug laws for fear of being portrayed as soft on drugs and crime. We remain trapped in a criminal justice system that struggles to overcome an apparently insatiable appetite for illegal drugs on the part of a significant part of the population, regardless of race, with law enforcement concentrating its efforts disproportionately on black and brown communities in a manner that defines its relationship with these communities.

While tensions between law enforcement officials and the black communities they patrol have existed for decades, the "War on Drugs" that has resulted in the explosion in incarceration during the last quarter of a century has come to largely define their relationship.

Too often, this "war" has transformed all of the people of those communi-

ties into suspects, sometimes with deadly results. In some communities it has resulted in excessive stops and frisk programs that have engendered widespread resentment of law enforcement among many black men and women, and in the disproportionate arrest and conviction of young black people for minor drug violations, usually marijuana, for which white users are being neither arrested nor prosecuted.

In poor black and brown communities, drug transactions tend to take place in public spaces. In more affluent and white communities, drug transactions transpire in private spaces, e.g. in the home or at the work place. Law enforcement officials seeking results in the "War on Drugs" patrol the spaces in black and brown communities with a mentality and approach that differs from law enforcement in white, middle class or affluent communities. It is likely, if not probable, that it is this difference that accounts, at least in part, for the repeated instances in black communities across the nation, in which black people, often unarmed, and sometimes entirely innocent of any crime, are beaten or shot, often with fatal results.

For example, in 2006, an elderly black woman, 92 years old, in Atlanta Georgia, was shot to death in her home when she used a gun to protect herself from a police team that forcefully invaded her in a drug raid on the wrong location.¹¹ In New York City, undercover police investigating prostitution and drugs at a Queens' nightclub fatally shot an unarmed young black man on his wedding day and wounded two of his acquaintances.¹² Such incidents rarely, if ever, occur in white communities.

These incidences often involve white law enforcement officers and black victims - but not exclusively. Whatever the race of law enforcement officers serving in black and brown communities, they serve in police forces whose relationship with the communities which they work is defined in large part by the "War on Drugs." The job is inherently dangerous, training is sometimes inadequate, and the threat of deadly force is always moment away. "Wars" are violent, whether foreign or domestic.

Even where deadly force is not at issue, the "War on Drugs" invites opportunities for destructive interactions between law enforcement and black communities. The infamous Tulia, Texas drug sting a few years ago was an example. There, fresh with federal funds for the "War on Drugs", state and

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local officials set up a drug sting which resulted in the arrest of 10% of the population of Tulia's black residents who were charged with narcotics trafficking. Convictions and pleas yielded sentences of one year's probation to 434 year's incarceration. No drugs, no weapons, no money were found. The convictions rested solely on the testimony of one undercover police officer later demonstrated to be racist and corrupt.¹³ While the NAACP Legal Defense Fund lawyers working in concert with law firms were eventually able to win the release of those incarcerated, they served four years for crimes they did not commit.

Felon disfranchisement laws similarly impact the lives of black Americans with felony convictions, and the communities from which they come. Between 4.5 and 5 Million Americans are not permitted to vote because of felony convictions, including more than 2 Million African Americans. In 48 states and the District of Columbia, persons incarcerated for felonies cannot vote. In 33 of the states, persons on probation or parole are ineligible to vote. In 14 states a felony conviction can result in loss of the right to vote for life.¹⁴

In 2006, a number of court challenges to felon disfranchisement laws were working their way through the courts. In *Hayden v. Pataki* and *Muntaqim v. Coombe*, convicted felons incarcerated and on parole, challenged New York State's felon disfranchisement laws. The U.S. Court of Appeals for the Second Circuit, sitting *en banc* (i.e. with all of its judges hearing the case instead of the usual panel of three), ruled in a narrowly divided opinion that New York's disfranchisement law could not be challenged under the Voting Rights Act.¹⁵ A similar case, *Farrakhan v. Gregoire*, arose in the Ninth Circuit, in which the Court found compelling evidence of Washington State's felon disfranchisement law. And in Alabama, a state with a long and protracted history of discrimination, LDF filed *Gooden v. Worley* challenging the manner in which the Jefferson County registrar illegally barred Mr. Gooden from voting because of a felony conviction even though the felony did not involve moral turpitude.

The effects of felon disfranchisement on black and brown communities are widespread, if not always readily apparent. For example, the U.S. Census Bureau counts persons in the jurisdiction in which they are represented, not from which they come.¹⁶ Consequently, rural, largely white

areas with penal institutions in their midst, get the benefit of a larger population count in the form of increased representation, even though those incarcerated (disproportionately and often overwhelmingly are black and brown) cannot vote. These communities also get the benefit of increased federal funding in programs that use a population formula based upon census figures. Consequently, the communities from which those who are incarcerated come, lose voting strength, political representation and federal dollars.¹⁷

Conclusion

Law continues to define the status of African Americans in the United States in a powerful fashion. However, the law is shifting from an instrument of social change to a tool for obstruction and impediment. The state of civil rights in 2007 is indeed precarious. But it is not too late. More now than ever, we must do everything possible to ensure that the rights of African-Americans are protected. This is the least that we owe to those who stood up when standing up wasn't easy.

NOTES

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2 *Gutierrez v. Bollinger*, 539 U.S. 306 (2003); *Gutierrez v. Bollinger*, 539 U.S. 244 (2003). "In this case, big business, including such household names as Pfizer, Inc., The Coca-Cola Company, Shell Oil Company, and General Electric Company joined law school deans, U.S. senators and universities in filing *amicus* briefs supporting affirmative action."

3 347 U.S. 483 (1954).

4 For further discussion on the Affirmative Action, see, "The Battle Over Affirmative Action: Legal Challenges and Outlook," *supra*, pp. 159-172.

5 520 U.S. 471 (1997).

6 539 U.S. 461 (2003).

7 Freeman, Lance, "Black Homeownership: A Dream No Longer Deferred?," *The State of Black America 2006 Report*, pp. 63-75.

8 Mauer, Marc, "Incarceration Nation," *Tompaine.com*, December 11, 2006.

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9 *Id.*

10 Marable, Manning, "Race-ing Justice, Disfranchising Lives: African Americans, Criminal Justice and the New Racial Domain," *The Black Commentator*, December 10, 2006.

11 "Woman, 92, Dies in Shootout with Cops," *Atlanta Journal-Constitution*, November 22, 2006.

12 "50 Bullets, One Dead, and Many Questions," *The New York Times*, December 11, 2006.

13 "Texas Frees 12 on Bond After Drug Sweep Inquiry," *The New York Times*, June 17, 2003.

14 "Felony Disfranchisement Laws In The United States," The Sentencing Project, November 2006.

15 *Montagim v. Coombe*, 366 F.3d 102, 107-08 (2d Cir. 2004).

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17 While perhaps purely coincidental, viewing the similarity between the present day effect of felon disfranchisement on political arrangements through the prism of race and the historical political arrangement enshrined in our Constitution as originally drafted and ratified is irresistible. Article I §2 counted for enumeration purposes, by euphemistic and tortured indirection, slaves as "three fifths of all other persons". Thus black people held in slavery could not vote but were counted for purposes of increasing political and economic power of the slave holding states. Incarcerated persons in early Twenty-First Century United States, while not exclusively black, are disproportionately black and brown. They are counted in way that increase the political and economic empowerment of heavily white communities, even though they cannot vote.

SECTION 703 OF HR 750, “RECRUITMENT OF AMERICAN WORKERS IN THE SAVE AMERICA COMPREHENSIVE IMMIGRATION ACT OF 2007” SUBMITTED BY THE HONORABLE SHEILA JACKSON LEE

1 of this Act, the Secretary of Labor shall submit to the
2 Congress a report describing the results of the study and
3 the Secretary’s recommendations based on the study.

4 **SEC. 703. RECRUITMENT OF AMERICAN WORKERS.**

5 Section 214 is amended—

6 (1) by redesignating subsections (m) (as added
7 by section 105 of Public Law 106–313), (n) (as
8 added by section 107(e) of Public Law 106–386),
9 (o) (as added by section 1513(c) of Public Law 106–
10 386), (o) (as added by section 1102(b) of the Legal
11 Immigration Family Equity Act), and (p) (as added
12 by section 1503(b) of the Legal Immigration Family
13 Equity Act) as subsections (n), (o), (p), (q), and (r),
14 respectively; and

15 (2) by adding at the end the following:

16 “(s)(1) No petition to accord employment status
17 under the nonimmigrant classifications described in sec-
18 tions 101(a)(15)(E)(iii) and (H) shall be granted in the
19 absence of an affidavit from the petitioner describing the
20 efforts that were made to recruit an alien lawfully admit-
21 ted for permanent residence or a citizen of the United
22 States before resorting to a petition to obtain a foreign
23 employee. The recruitment efforts must have included sub-
24 stantial attempts to find employees in minority commu-
25 nities. Recruitment efforts in minority communities should

1 include at least one of the following, if appropriate for the
2 employment being advertised:

3 “(A) Advertise the availability of the job oppor-
4 tunity for which the employer is seeking a worker in
5 local newspapers in the labor market that is likely
6 to be patronized by a potential worker for at least
7 5 consecutive days.

8 “(B) Undertake efforts to advertise the avail-
9 ability of the job opportunity for which the employer
10 is seeking a worker through advertisements in public
11 transportation systems.

12 “(C) To the extent permitted by local laws and
13 regulations, engage in recruitment activities in sec-
14 ondary schools, recreation centers, community cen-
15 ters, and other places throughout the communities
16 within 50 miles of the job site that serve minorities.

17 “(2)(A) The Secretary of Homeland Security shall
18 impose a 10 percent surcharge on all fees collected for pe-
19 titions to accord employment status and shall use these
20 funds to establish an employment training program which
21 will include unemployed workers in the United States who
22 need to be trained or retrained. The purpose of this pro-
23 gram shall be to increase the number of lawful permanent
24 residents and citizens of the United States who are avail-
25 able for employment in the occupations that are the sub-

1 jects of such petitions. At least 50 percent of the funds
2 generated by this provision must be used to train Amer-
3 ican workers in rural and inner-city areas.

4 “(B) The Secretary of Homeland Security shall re-
5 serve and make available to the Secretary of Labor a por-
6 tion of the funds collected under this paragraph. Such
7 funds shall be used by the Secretary of Labor to establish
8 an ‘Office to Preserve American Jobs’ within the Depart-
9 ment of Labor. The purpose of this office shall be to estab-
10 lish policies intended to ensure that employers in the
11 United States will hire available workers in the United
12 States before resorting to foreign labor, giving substantial
13 emphasis to hiring minority workers in the United
14 States.”.

15 **TITLE VIII—FAIRNESS IN**
16 **REMOVAL PROCEEDINGS**

17 **SEC. 801. RIGHT TO COUNSEL.**

18 Section 292 (8 U.S.C. 1362) is amended by striking
19 the matter after the section designation and inserting the
20 following: “In any bond, custody, detention, or removal
21 proceedings before the Attorney General and in any appeal
22 proceedings before the Attorney General from any such
23 proceedings, the person concerned shall have the privilege
24 of being represented (at no expense to the government)
25 by such counsel, authorized to practice in such pro-

“THE IMPACT OF NEW IMMIGRANTS ON YOUNG NATIVE-BORN WORKERS, 2000-2005”
 BY ANDREW SUM, PAUL HARRINGTON, AND ISHWAR KHATIWADA OF THE CENTER
 FOR IMMIGRATION STUDIES, SEPTEMBER 2006, SUBMITTED BY THE HONORABLE
 ELTON GALLEGLY



Background

September 2006

The Impact of New Immigrants on Young Native-Born Workers, 2000-2005

By Andrew Sum, Paul Harrington, and Ishwar Khatiwada

Over the 2000-2005 period, immigration levels remained very high and roughly half of new immigrant workers were illegal. This report finds that the arrival of new immigrants (legal and illegal) in a state results in a decline in employment among young native-born workers in that state. Our findings indicate that young native-born workers are being displaced in the labor market by the arrival of new immigrants.

- Between 2000 and 2005, 4.1 million immigrant workers arrived from abroad, accounting for 86 percent of the net increase in the total number of employed persons (16 and older), the highest share ever recorded in the United States.
- Of the 4.1 million new immigrant workers, between 1.4 and 2.7 million are estimated to be illegal immigrants. This means that illegal immigrants accounted for up to 56 percent of the net increase in civilian employment in the United States over the past five years.
- Between 2000 and 2005, the number of young (16 to 34) native-born men who were employed declined by 1.7 million; at the same time, the number of new male immigrant workers increased by 1.9 million.
- Multivariate statistical analyses show that the probability of teens and young adults (20-24) being employed was negatively affected by the number of new immigrant workers (legal and illegal) in their state.
- The negative impacts tended to be larger for younger workers, for in-school youth compared to out-of-school youth, and for native-born black and Hispanic males compared to their white counterparts.
- It appears that employers are substituting new immigrant workers for young native-born workers. The estimated sizes of these displacement effects were frequently quite large.
- The increased hiring of new immigrant workers also has been accompanied by important changes in the structure of labor markets and employer-employee relationships. Fewer new workers, especially private-sector wage and salary workers, are ending up on the formal payrolls of employers, where they would be covered by unemployment insurance, health insurance, and worker protections.

Introduction

During the last five years, new immigrants have accounted for an overwhelming share of the growth in the number of employed persons in the United States. Native-born adults and established immigrants have been unable to capture much of the new employment opportunities that have been created in the nation since 2000. The number of employed persons in the civilian working-age (16 and over) population rose by 4.835 million between 2000 and 2005. During 2005, a total of 4.134 million new immigrants were working in the United States. New immigrants who entered the United States since 2000 and were still residing here during 2005 accounted for 86 percent of the total increase in employment in the nation over the 2000 to 2005 period. Native-born and established immigrants accounted for less than one-sixth of the total rise in civilian employment that occurred in the nation over the past five years. These findings differ by gender. Among men, new immigrants accounted for all of the rise in employment, as the total number of employed men in the nation increased by only 2.665 million while the number of employed new immigrant males was 2.767 million during 2005. For the first time since the end of World War II, there has been no gain in employment among native-born men over a five-year period.

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A substantial share of employed new immigrants appear to be illegal workers, often employed in off-payroll jobs that are increasingly concentrated in a newly emerging informal sector of the American labor market. The Pew Hispanic Center estimates that there were 4.4 million illegal immigrants residing in the United States in 2005 who had entered the country since 2000.¹ We estimate that 2.857 million of these new illegal immigrants were actively participating in the labor force during 2005 and that about 5.5 percent of the immigrant labor force was unemployed.² With a labor force of 2.857 million and an estimated unemployment rate of 5.5 percent, we conclude that the

number of new illegal immigrants who were working in the United States during 2005 was 2.7 million. This means that about two-thirds of all employed recent immigrants in the United States were working illegally during 2005 and that more than one-half (56 percent) of the total rise in employment that occurred in the nation between 2000 and 2005 was attributable to the growth in employment among illegal immigrant workers.

The extraordinarily high share of new employment captured by new immigrants was accompanied by a powerful shift in the organization of the nation's labor markets. In a subsequent section of this report we will provide evidence that some employers have begun to re-organize work in ways that systematically exclude certain native-born workers, especially those under the

age of 35, from employment and that create work that does not meet the basic labor standards that have been developed over the years by federal and state legislation, custom and tradition, and through labor-management/collective bargaining agreements.

The ability of the nation's teen and young adult (20-24) population to become employed has deteriorated badly over the past five years. Employment levels for all those aged 16 to 34 have fallen by more than 1.5 million between 2000 and 2005, even as the total number of employed persons increased by more than 4.8 million over the same period of time. Several alternate explanations might help explain this employment

decline among young people in the nation. Part of the explanation could simply be associated with demographic change. Reductions in the size of the teen and young adult age cohorts can result in employment declines even though the likelihood of a member of that cohort finding work doesn't change. Alternately, changes in the likelihood of becoming employed can reduce the number of young people working. The first explanation has no validity since the number of native-born people aged 16 to 34 rose as the echo generation (baby boomers' children born between 1978 and 1996) moved into this age group in large numbers.

The number of native-born males aged 16 to 34 in the population increased by nearly 1.1 million between 2000 and 2005.³ Rather than reducing employment levels, these demographic forces would have been expected to increase overall employment levels of native-born males aged 16 to 34. Indeed, we estimate that if the proportion of native-

Table 1. Changes in the Number of Employed Persons 16 and Older by Gender and Nativity Status, 2000-2005: United States (in 1000s, annual averages)

Gender Group	(A) Employment Change	(B) Number of New Immigrant Workers ¹	(C) % of Employment Change Due to New Immigrants
All	4,835	4,134	85.5
Men	2,665	2,767	103.8
Women	2,170	1,367	63.0

¹ A new immigrant is a foreign-born individual who migrated to the United States between 2000 and 2005 and was working at the time of the 2005 CPS surveys.

Sources: (i) CPS monthly surveys, public use files, 2000 and 2005, tabulations by the Center for Labor Market Studies; (ii) U.S. Bureau of Labor Statistics, web site, www.bls.gov.

Table 2. Changes in Employment in the United States, 2000-2005, by Age Group and Nativity Status (numbers are annual averages in 1000s)

Age Group	(A) All Employed	(B) New Immigrant Employed ¹	(C) Native-Born Workers and Established Immigrants ²
16-34	-1,529	2,708	-4,237
35-54	1,090	1,285	-195
55+	5,263	142	5,121

¹ New immigrant employed are foreign-born workers who arrived in the United States between 2000 and 2005.

² Established immigrants are those who arrived in the United States prior to calendar year 2000.

Sources: (i) U.S. Bureau of Labor Statistics, web site, www.bls.gov; tabulations by authors; (ii) 2005 monthly CPS household surveys, public use files, tabulations by authors.

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born young males working during 2005 were the same as the share of native-born workers employed during the full employment year of 2000, 1.721 million more young native-born men would have been at work during that year. Employment among native-born young men declined not because there were fewer young men, but because their employment rates declined precipitously. The employment to population (E/P) ratio of young males has fallen sharply over the last five years. Some of these declines are quite extraordinary and, in the case of male teens, the 2005 E/P ratio was the lowest in the nation over the entire 58-year period covered by the Current Population Survey (CPS) teen employment series.

Among females, the trends in employment have been similar. While the size of the young native-born and established-immigrant female population has increased at about the same rate as males, the number who are employed has declined sharply. Similar to findings for their male counterparts, the E/P ratio of native-born female teens and young adults fell considerably over the last five years, accounting for all of the decline in employment among young native-born females. If native-born teen and young-adult females had been able to maintain their employment rate at the same level as the full employment year of 2000, then the number who were employed in 2005 would have increased by 1.382 million.

The decline in employment levels among native-born teens and young adults implies that employers have turned to alternative sources of labor supply to meet their labor requirements. One alternative source of substitute labor is, of course, the surging older worker population fueled by the baby boom age cohort entering their pre-retirement years in the past five years. These individuals represent a ready potential source of substitute workers for teens and young adults. The other potential alternative source of labor supply is the flow of new immigrants to the United States since 2000. Large numbers of new foreign workers, the majority of whom entered the United States and work here illegally, also represent a ready

source of labor supply to take the place of native-born and established-immigrant teens and young adults in the nation's labor markets.

As noted below, the job deficit for native-born male teens and young adults in the nation was 1.721 million, while the number of new immigrant male workers in the same age group in 2005 was 1.859 million (Table 4). If the jobs held by new immigrant males aged 16 to 34 were made available to jobless native-born males, then the job deficit among the native-born would be completely eliminated. Among women, the substitution of jobless native-born young women for recent young female immigrants would result in the native-born female job deficit declining by more than 60 percent. Overall, nearly 90 percent

Table 3. Changes in the Employment / Population Ratios of 16-34 Year Old, Native-Born Men and Women in the U.S. by Age Group, 2000-2005 (annual averages in percent)

Age Group	(A)	(B)	(C)	(D)
	2000	2005	Percentage-Point Change (B - A)	Percent Change (B - A / A)
Males				
16 - 19	45.7	36.4	-9.3	-20
20 - 24	76.3	70.8	-5.5	-7
25 - 29	89.0	84.7	-4.3	-5
30 - 34	91.5	88.7	-2.8	-3
Females				
16 - 19	46.8	39.5	-7.3	-16
20 - 24	70.5	66.7	-3.8	-5
25 - 29	77.4	72.9	-4.5	-6
30 - 34	75.1	73.2	-1.9	-2

Table 4. Comparisons of the Hypothetical Increase in the Number of Employed Native-Born Workers Ages 16-34 in 2005 with the Number of New Immigrant Workers Ages 16-34 Over the 2000-2005 Time Period, Total and by Gender

Gender Group	(A)	(B)	(C)
	Hypothetical Increase in Native-Born Employment in 2005	Number of New Immigrant Workers in this Age / Gender Group in 2005	Ratio of B/A
16-34, Men	1,721,000	1,859,000	1.08
16-34, Women	1,382,000	849,000	.61
16-34, Total	3,103,000	2,708,000	.87

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of the native-born teen and young adult job deficit that has emerged over the last five years would be eliminated if native-born teens and young adults worked in jobs now held by recent immigrants of the same age. While some mismatches in the occupational composition of employment might occur between native-born and foreign-born workers, the jobs held by these groups are quite similar to jobs in all occupations simultaneously held in large numbers by both foreign-born and native-born workers.⁴ These findings strongly suggest that a major proportion of the native-born job deficit of teens and young adults that has developed in the United States over the past five years is the result of newly arrived, young female, and especially male immigrants displacing these potential workers from employment. Native-born older workers are a much less likely substitute for employers who hire many fewer native-born teens and young adults. Native-born older workers have differing levels of work experience, expectations of hours and weeks of work, and are paid at considerably higher wage rates than are teen and young adult workers. Recent young immigrant workers are much closer substitutes for young native-born workers compared to the aging members of the baby boom generation.

Impacts of New Immigrants on Young Adult Employment

Most studies of the economic impacts of immigration on native-born workers have focused on wage and annual earnings impacts rather than employment impacts. There

is a general tendency among labor market analysts to assume that, as a result of labor market and wage flexibility, there are few job displacement effects of immigration on native-born workers, citing older studies to back up these opinions. Several more recent statistical studies, however, indicate that less-educated native-born workers, teenagers, and black males do suffer employment declines as a result of immigrant labor inflows.⁵ Ethnographic research work in Boston, Chicago, Los Angeles, New York City, and other large central cities across the nation has revealed that young immigrant workers are often preferred by employers over poorly educated native-born workers, especially those from inner city neighborhoods characterized by high poverty rates.⁶

One might well expect the labor displacement effects of immigration to be low in periods of full employment, when job opportunities are abundant and vacancy rates are high, such as the late 1990s in the United States when employment rose across the board among both most native-born workers and new immigrant workers. However, in more slack labor market environments, such as the 2003-2004 period, one might well expect that a rise in the supply of immigrant labor could generate displacement impacts on native-born workers, especially among those in most direct competition for available jobs with newly arrived immigrant workers, such as young, native-born adults with limited formal schooling, especially those in central cities.

To test whether the influx of new immigrant workers over the 2000-2003 period had an adverse effect on the employment prospects of the nation's young adults (16-24 years old), we estimated a series of multivariate statistical employment models for young adults, including a variable representing the relative size of new immigrant inflows into the labor force of the state in which the young adult resided at the time of the 2003 American Community Survey (ACS).⁷ The relative sizes of these new immigrant labor force inflows varied quite considerably across states between 2000 and 2003. The size of these immigrant inflows ranged across the 50 states and the

Table 5. The Estimated Impact of a One Percentage-Point Increase in the State Labor Force Due to New Immigration Since 2000 on the Predicted Probability of Employment Among 16-24 Year Olds in 2003

Group	(A)	(B)
	Estimate Percentage-Point Impact	Sig. Of Coefficient
All 16-24 year olds	-1.2	.01
16-24 year old native born	-1.1	.01
16-24 year old men	-1.6	.01
16-24 year old women	-.9	.01
16-24 year old in-school youth	-1.8	.01
16-24 year old men with 12 or fewer years of school	-1.6	.01
16-24 year old men with 13 or more years of schooling	-1.6	.01
16-24 year old women with 12 or fewer years of school	-1.3	.01
16-24 year old women with 13 or more years of school	-.4	Not significant at .05
16-24 year old black youth, no high school diploma	-2.4	.05

Source: 2003 ACS surveys, tabulations by authors

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District of Columbia from a low of .2 percent to a high of 3.9 percent, with a mean of 1.63 percent.

The dependent variable in this multivariate statistical model was the employment status of a 16-24 year-old respondent at the time of the 2003 ACS. The variable was a dichotomous variable that took on the value of one if the respondent was employed (either part-time or full-time) and the value of zero if he/she was not employed at the time of the ACS. The right-hand-side predictor variables included the gender, age, race-ethnic group, and educational attainment of the respondent, the unemployment rate of the state in which he/she resided at the time of the survey in 2003, and the relative size of new immigrant labor inflows into the state since 2000. We estimated these employment probability models for all 16-24 year olds and for a variety of gender, nativity, gender and schooling, and school enrollment subgroups.¹ The findings in Table 5 display the estimates of a one percentage-point increase in the state labor force due to new immigration on the probability of employment among young adults.

For the entire sample of 16-24 year olds,² a one percentage-point increase in the state labor force due to new immigration would have lowered the predicted employment rate of such youth by 1.2 percentage points. The estimated impact was highly statistically significant (.001). For a state with a recent large influx of new immigrants (a three percentage-point rise in the civilian labor force of the state), the probability of employment among 16-24 year olds in that state would have declined by a substantial 3.6 percentage points.

The estimated impacts of new immigrant workers on the employment rates of 16-24 year olds were approximately the same for the native-born as they were for all 16-24 year olds, but as expected were considerably larger for men than for women (-1.6 percentage points for men versus -.9 percentage points for women),³ and were larger for less-educated women than for women with some post-secondary schooling.⁴ The finding of larger adverse employment impacts for men than for women is not surprising given the relatively high share of new immigrant workers that were men (66 percent). Larger adverse impacts for less-educated workers were also expected given the above-average share of new immigrant workers who lacked a high school diploma and the weaker national labor market for less-educated native-born workers during this time period. The results in Table 6, thus, provide substantive empirical evidence that the recent influx of new immigrant workers has resulted in job losses for many subgroups of young adults in the nation, especially in those states that were more heavily impacted by new immigrant labor. Males, in-school youth, less-educated workers, and black males appear to have

been more adversely affected than other demographic subgroups of young adults.

The availability of the public use micro data from the 2004 ACS allowed us to update our findings on the impacts of new immigrant worker inflows in states on the employment probabilities of very young adults. Given the continuing severe labor market problems of teens and youth in their early 20s throughout 2004, we selected 16-20 year olds for our analysis. There were observations for approximately 74,000 youth in this age group on the ACS public use files, of whom 58,600, or nearly 80 percent, were enrolled in school at the time of the ACS survey's completion.¹⁷

The dependent variable in these models is the employment status of the respondent at the time of the survey. Those employed respondents, including persons with a job but temporarily absent due to vacation, weather-related factors, etc., were coded as a "1" and all others as "0." In these models, we control for a wide array of demographic and family income background variables, the school enrollment status and educational attainment of the respondents, the unemployment rate of the state in which they lived, and the relative size of new immigrant worker inflows since 2000.¹⁸

These regression models of young adult employment rates were estimated for all 16-20 year olds and for a variety of gender, race, and school enrollment subgroups. Estimates of the impact of new immigrant inflows on the probability of employment of young adults are displayed in Table 6.

For the entire group of 16-20 year olds, the presence of new immigrants in their state's workforce had a

Table 6. The Estimated Impact of New Immigrant Worker Inflows in States on the Probability of Employment of 16-20 Year Olds in 2004

Group of Youth	Estimated Impact (in Percentage Points)	Sig. of Estimated Impacts
All	-.021	.01
Enrolled in-School	-.024	.01
Out-of-school	-.006	.05
Men	-.022	.01
Women	-.019	.01
Black	-.014	.01
Native Hispanic	-.021	.01
Black Men	-.030	.01
White Men	-.022	.01
Non-White Men	-.023	.01

Source: CLMS analysis of ACS 2004 data for 16-20 year old, civilian youth not living in group quarters.

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strong, statistically significant, negative impact on the likelihood that they will be employed. A one percentage-point increase in the share of new immigrants in the state's workforce will reduce the probability of employment of young adults by 2.1 percentage points. The effects of new immigrant workers are negative and statistically significant for each subgroup of young adults in Table 6, and are equally large for both men and women,¹⁴ but they are much larger for in-school youth than for out-of-school youth (2.4 percent vs. 0.6 percent). The size of the coefficient was highest for black men, implying that they are the most adversely affected by new immigrant inflows.

New Immigrant Workers' Impact on the Job Market

The rise in immigrant employment, especially among illegal workers, over the past decade has been accompanied by a number of important changes in the structure of employment relationships in U.S. labor markets. Recent years have seen the growth in contractor employment relationships and the use of independent consultants and off-the-books workers.¹⁵ These newly hired workers do not go on the formal payrolls of the firms that hire them, and they typically are not paid employee benefits such as health insurance and pension benefits or covered by the Unemployment Insurance, workers compensation, or Social Security systems.

These changing employment relationships are not simply revealed in growing media coverage of labor market developments at the local level, but also show up in the large differences between employment changes registered by the two national surveys used by the U.S. Bureau of Labor Statistics to estimate monthly employment, the Current Employment Statistics Survey (CES) payroll survey and the

Current Population Survey (CPS) household survey.¹⁶ The CES generates a monthly count of wage and salary payroll jobs from a monthly sample of about 160,000 businesses and federal, state, and local government organizations covering 400,000 individual establishments that participate in the unemployment insurance system. The CES is considered by many economic and financial analysts to be the primary source of data on wage and salary job growth and decline in the nation and among states and is a primary topic of discussion and analysis in BLS' monthly *Employment Situation* news release, which is widely covered by the national media. One of the most important uses of the CES data at the national level is to measure the job-generating performance of the economy over the course of the business cycle.

A second source of information on monthly employment trends at the national and state levels is the findings of the CPS. The CPS is a survey of approximately 60,000 households conducted each month by the Census Bureau for the U.S. Bureau of Labor Statistics. Unlike the CES, which measures only the number of private and public formal payroll jobs, the CPS provides a more comprehensive count of the number of employed persons ages 16 and older each month. The CPS employment count includes not only workers in traditional wage and salary jobs, but also workers outside the scope of the payroll employment survey, including agricultural workers, the self-employed, independent contractors, unpaid family workers, and some "under the table" or "off-the-books" workers.¹⁷ The CPS survey counts each employed person only once, regardless of the number of jobs he/she holds at the time of the survey, while persons holding multiple wage and salary jobs will be counted twice in the CES. Historically, the CPS and CES employment measures have tracked one another fairly well. However, during the past five years considerable differences have emerged between the two surveys' estimates of the overall increase in the nation's employment levels, with the CPS showing much greater growth in private sector wage and salary employment. These findings stand in sharp contrast to that observed for earlier time periods.

During both the 1980s and 1990s economic expansions, the growth in payroll employment levels in

Table 7. Non-Agricultural Wage and Salary Employment Changes in the United States, 16 Quarters from the Trough of the Last Six Recessions (seasonally adjusted, in millions)

Cycle Trough	16 Quarters After Trough	Employment at Trough	Employment 16 Quarters after Trough	Employment Change	Percent
1961 Q1	1965 Q1	53.475	59.648	6.174	11.5 %
1970 Q4	1974 Q4	70.459	78.124	7.665	10.9 %
1975 Q1	1979 Q1	76.769	89.046	12.278	16.0 %
1982 Q4	1986 Q4	88.704	100.173	11.469	12.9 %
1991 Q1	1995 Q1	108.530	116.479	7.949	7.3 %
2001 Q4	2005 Q4	131.130	134.161	3.031	2.5 %

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics Survey, seasonally adjusted quarterly average data, downloaded from www.bls.gov May 18, 2006.

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the nation was greater than that measured by the household survey. Typically, payroll employment levels in the nation grow rapidly during the early stages of recovery from an economic recession. Rising Gross Domestic Product (GDP) increases the demand for labor by employers who then add more workers to their payrolls. Over the period from the early 1960s through 2000, the nation experienced five recoveries from economic recessions. On average, the nation's wage and salary employment levels increased by 11.7 percent during the first four years of recovery for these five post-recession periods. The rates of new job creation varied from a low of 7.3 percent during the early stages of recovery from the 1990-1991 recession to a 16 percent rise in the nation's wage and salary employment levels during the recovery from the recession of 1974-75.

However, the rate of job growth during the first four years of recovery from the recession of 2001 has been much slower than the historic pace of national payroll employment growth in recovery periods. Despite robust rates of growth in real GDP, strong growth in corporate profits, and a stock market boom, the nation's rate of new payroll employment growth was just 2.5 percent between 2001 Q4 and 2005 Q4. **This rate of new job creation was equal to only one-fifth of the historical average rate of new job creation over the previous five recoveries (Table 7).**

Why has the rate of payroll employment growth been so slow over the past four years, given the strong overall performance of the nation's economy by most key economic indicators? Increased labor productivity growth appears to be an important explanation, but part of the answer is associated with strong growth in off-payroll employment, especially among the recent-immigrant population. Since the end of the 2001 recession in the fourth quarter of 2001, payroll employment in the nation increased by just 3.23 million jobs while the number of working-

age persons who were employed, according to the CPS, rose at twice that pace, increasing by 6.446 million (Table 8). Unlike the employment expansions of the 1980s and 1990s, when payroll employment growth substantially outpaced that of household employment, the current recovery is characterized by a new pattern of job growth.

Over the entire 2000 to 2005 period, the nature of the relationship between the employment growth estimates of the two surveys has changed radically. Between 2000 and 2005, wage and salary employment levels, as measured by the CES, rose by only 1.678 million or 1.3 percent while the CPS found that the number of employed workers increased by 4.672 million over the same period of time (Table 9). On an annual average basis, we find that employment as measured by the CES business establishment survey increased from 131.785 million during 2000 to 133.463 million by 2005, an increase in non-agricultural payroll jobs of only 1.678 million. In contrast, the household survey found that the number of working-age persons employed in the nation increased from 136.934 million to 141.606 million, a rise of 4.672 million over the 2000 to 2005 period, a difference of nearly three million.

The CPS household survey measured a rise in employment that was nearly three times greater than

Table 8. Comparisons of National Employment Growth Between 2001 Q4 and 2005 Q4 from the CPS Household Survey and the CES Business Establishment Payroll Survey (quarterly averages, numbers in millions)

	2001 Q4	2005 Q4	Absolute Change	Relative Change
CES Business Establishment Survey	130.932	134.161	3.229	2.5 %
CPS Household Survey	136.225	142.671	6.446	4.7 %
Gap Between CPS and CES			3.217	

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics Survey and Current Population Survey data seasonally adjusted quarterly average data, downloaded from www.bls.gov May 16, 2006.

Table 9. Comparisons of National Employment Growth Between 2000 and 2005 from the CPS Household Survey and the CES Payroll Survey (annual averages, numbers in millions)

	2000	2005	Relative Change	Absolute Change
CPS Household Survey	136.934	141.606	3.4 %	4.672
CES Establishment Survey	131.785	133.463	1.3 %	1.678
Gap Between CES and CPS Growth Estimates				2.994

Source: U.S. Bureau of Labor Statistics, "Labor Force and Employment Estimates Smoothed for Population Adjustments, 1990, 2005".

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that measured by the CES over the 2000-2005 period.

As we noted earlier, the CPS and the CES use somewhat different employment concepts. The CPS includes agricultural workers, the self-employed, independent contractors, unpaid family workers, and some off-the-books workers while the CES does not.

We have adjusted the CPS employment data to more closely fit the CES employment concepts in order to obtain a more direct comparison between the CPS and CES measures of employment change over the 2000 to 2005 period.¹⁸ Our first adjustment was to exclude agricultural workers from the CPS household survey employment count since the CES measures only employment in the non-agricultural sector of the nation's economy (Table 10). After excluding agricultural workers, non-farm employment as measured by the CPS survey increased more considerably — by 4.976 million between 2000 and 2005 — indicating that employment among agricultural workers declined over this five-year period. It is important to note

that recent immigrants are about 1.8 times more likely to work in the nation's agricultural industries than are the native-born.

The estimated decline in agricultural employment over the last five years suggests that this sector was not a major source of new employment opportunities for new immigrants.¹⁹ Excluding agricultural sector employment from the CPS totals further widens the difference between the CPS employment growth estimate and the CES job growth estimate over this period, raising the size of the gap in employment growth from 2,994 million to 3,268 million. The CPS estimate of new employment growth rises to 2.95 times that estimated from the CES payroll survey versus only 2.78 times when agricultural employment is included in the CPS totals.

Much of the new payroll job creation that occurred in the nation over the 2000 to 2005 period was concentrated in the government sector. About 60 percent of the total rise in payroll employment that was generated

nationally over the last five years has been on government payrolls. Native-born workers are much more likely than immigrants, especially recent immigrants, to work in federal, state, and local government agencies. During 2005, native-born workers were three times more likely to be employed in a government job compared to employed recent immigrants (Table 11). The CES estimated

that between 2000 and 2005, federal, state, and local government payroll employment increased by 1.023 million jobs while the CPS found that the number of persons who said they were employed by the government in-

Table 10. Comparisons of National CPS and CES Employment Growth Estimates 2000 to 2005 for Selected Sub-Groups of Workers (annual averages in millions)

Group of Workers / Jobs	CPS	CES	CPS-CES	CPS Change/ CES Change
All Workers/Jobs	4,672	1,678	2,994	2.78
Non-Farm Employment Only	4,576	1,678	3,298	2.95
Government Employment Only	1,143	1,013	130	1.12
Non-Farm Private Sector Employment Only	3,803	665	3,138	5.72
Non-Farm Private Sector Wage and Salary Employment Only	3,691	665	3,026	5.55

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics Survey and Current Population Survey data seasonally adjusted quarterly average data, downloaded from www.bls.gov May 18, 2006.

Table 11. Distribution of Employment for Selected Classes of Workers by Nativity Status, Annual Averages (2005)

	Native-Born	Recent Immigrant	Established Immigrant	Ratio of Recent Immigrant to Native-Born
Agricultural	1.4 %	2.6 %	1.7 %	1.79
Non-Agricultural, Wage and Salary Private Sector	75.8 %	86.0 %	81.2 %	1.14
Government	15.5 %	4.9 %	8.5 %	0.31
Non-Agricultural Self-Employed	6.7 %	4.4 %	7.2 %	0.65

Source: CPS 12-month public use data files, 2005, tabulations by Center for Labor Market Studies, Northeastern University.

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creased by 1.143 million. Thus, the CPS government employment growth estimate was nearly identical to that of the CES.

Findings from the CES, however, reveal very small increases in private sector wage and salary employment in the nation over the past five years. The CES found that non-farm, private sector payroll employment increased by just 665,000 jobs over the past five years. In contrast, the CPS household survey estimated that the number of persons employed in non-farm, private sector jobs increased by 3.026 million. **The CPS estimate of non-farm, private sector employment growth between 2000 and 2005 was more than five times larger than that estimated by the monthly CES establishment survey.** Recent immigrant employment is heavily concentrated in the private non-agricultural sector of the nation's labor market. While about three-quarters of all native-born workers are employed in private wage and salary jobs, 86 percent of recent immigrants report that they work for an employer in the private non-farm sector.

Over the past five years, the relationship between the CPS and CES estimates of employment growth rates has changed dramatically. Instead of observing the pattern of substantially more payroll job growth compared to increases in the number of employed persons from the CPS prevailing in the 1980s and 1990s, the employment data since 2000 reveal much higher growth in employment measured by the CPS relative to the slow growth registered by the CES. We also have analyzed the relationship between the CPS and CES estimates of job growth at the state level over the last five years. Our findings reveal that those states that had large increases in the number of employed immigrants were also those states with the largest gaps in employment growth estimates between the Local Area Unemployment Statistics (LAUS) program and the count of jobs from the state CES survey. The LAUS program is a statistical program used by states to estimate the monthly number of employed and unemployed residents.

For example, the findings in Table 12 reveal that, while the num-

ber of employed residents in the state of Texas increased by 733,000 between 2000 and 2005, total payroll employment levels in the state increased by less than half of this amount, rising by just 308,000 over the same five-year period. At the same time, the number of new working immigrants in the state increased by more than 388,000, the second largest increase in the nation. A look at the top-20 states ranked by the size of the CES-CPS employment growth gap reveals a fairly strong connection between the size of the gap and the size of the increase in the number of new immigrants employed in each state. The correlation between the CES-CPS employment gap and growth in employed immigrants is quite high. We estimate a correlation coefficient of .79 between the absolute size of the difference in employment change between the two jobs measures and the change in the number of employed immigrants in each state over the 2000 to 2005 period.

Table 12. Comparisons of Changes in CES Payroll Employment and Household Survey Based Estimates of Non-Agricultural Employment at the State Level and Change in Employment Levels Among Immigrants by State, 2000 to 2005 (annual averages, numbers in thousands)

CES-CPS Gap Rank	State	(A) (B)		(C)	(D)
		CES	LAUS	Net Difference (B - A)	New Immigrant Employment
1	Texas	308.0	733.6	425.6	388.6
2	California	299.9	722.5	422.6	842.7
3	New York	-101.6	192.5	294.1	314.2
4	Georgia	50.4	250.9	200.6	174.2
5	Ohio	-194.3	-22.7	171.6	57.7
6	North Carolina	-22.3	136.5	158.8	137.9
7	Virginia	152.0	295.2	143.2	122.8
8	Washington	68.2	211.2	143.1	68.8
9	Pennsylvania	13.2	149.0	135.8	95.5
10	Colorado	11.5	119.0	107.5	69.6
11	Illinois	-179.3	-76.0	103.3	159.4
12	Michigan	-287.0	-199.6	87.4	71.7
13	Minnesota	25.4	108.1	82.6	50.0
14	Arkansas	19.5	88.0	68.5	15.9
15	Connecticut	-29.9	-30.3	60.1	61.8
16	Kansas	-10.9	48.9	59.8	22.1
17	Massachusetts	-127.2	-70.3	56.9	112.1
18	New Jersey	50.8	105.6	54.8	201.9
19	Utah	74.5	116.2	41.8	30.8
20	Arizona	264.4	305.2	40.8	98.4

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics Survey and Current Population Survey data seasonally adjusted quarterly average data, downloaded from www.bls.gov May 18, 2006.

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The above findings imply that large numbers of these new immigrant workers are not appearing on the formal payrolls of their employers. Instead, they are being hired as independent contractors or completely off the books and being paid in cash. Evidence from other data sets, field research by the authors, and growing media stories support this assertion that a high share of new immigrants, especially illegal immigrants, are employed in the informal or "black" economy.²⁰ In 2003 and 2004, only one-third of new employed immigrants reported being covered by a health insurance plan at work and fewer than one in five reported that they were covered by a pension plan at work, versus nearly one-half of the native-born.²¹ Among less-educated workers from Mexico and Central America, the dominant sources of illegal workers, only about 15 percent reported any health insurance coverage from their employers. When unemployed, fewer than 10 percent report being covered by unemployment insurance benefits.

The employment growth gaps between the CPS and the CES at the national level were systematic in nature and specific to particular classes of workers. The size of the employment growth gap for the government sector of the labor market was quite small. Government was among the least important sources of jobs for employed new immigrants and access to government jobs is largely confined to formal wage and salary positions. Few illegal workers have the opportunity to find work in most government organizations. Strict hiring protocols dramatically limit the potential use of off-the-books work for many government positions. The comparatively small employment growth gap between the household and payroll survey for the government sector appears to be the result of increasing use of workers as independent consultants by some state and local government agencies, a common practice in states such as Massachusetts.

In contrast, the CES data reveal little growth in the nation's non-farm private sector wage and salary jobs over the past five years. These positions are ones in which the overwhelming majority of employed Americans work. They are characterized by a formal employer-employee relationship such as that defined in the Social Security Act. Indeed, a hallmark of formal payroll jobs is the automatic payroll deductions made for employee contributions to the Old Age, Survivors, Disability, and Health Insurance trust fund. Yet, in contrast to the very slow private sector wage and salary job growth as measured by the CES, the CPS reveals non-farm, private wage and salary growth that was 5.5 times higher.

We find that the unprecedented gap between the household and payroll surveys' estimates of employment growth over the past five years is primarily the result of concentrating new employment growth in independent contractor and off-the-books jobs. Employers in many sectors, especially construction, landscaping, retail trade, office cleaning, and leisure and hospitality industries as well as in private households where strong job growth also has been reported in recent years, are increasingly re-organizing work to take advantage of the substantial influx of new illegal immigrants into the United States since 2000. Many of these jobs are filled by illegal immigrants who arrive on street corners, informal shape-ups, and convenience store parking lots waiting for any of a number of potential employers to come by and pick them up for a day's work.

Increasingly, the nation's employers seem to be operating outside of the legal framework that has defined U.S. labor markets since the New Deal. Expansion of contract employment, off-the-books workers, and black labor markets in an increasing number of communities throughout the nation has meant that a growing fraction of workers now provide their labor outside of the fundamental worker protections that the nation had previously taken for granted, including wage and hour laws, worker safety and health mandates, and minimum wage protections established over the past 70 years. These changes in labor relationships also have reduced rates of unionization, lowered the share of workers receiving key employee benefits, such as health insurance, paid vacations, and pensions and have decreased unemployment insurance, Social Security, and workers' compensation tax receipts.

The growing inflow of illegal-immigrant workers has contributed to a fundamental breakdown in the nation's labor laws and labor standards as the sheer volume of illegal hiring activity overwhelms what has amounted to meager enforcement levels of basic labor standards across the nation by federal and state officials from both political parties.²² Absent renewed efforts to strengthen enforcement of both border security and federal and state labor laws, these new forms of work organization will continue to grow in the future. The past formal relationships between workers and employers will continue to unravel, undermining the unemployment insurance and social security systems and basic worker protections that have evolved in the nation over the last century. These adverse effects on employer-worker relationships have to be taken into account in any benefit-cost calculus of the impacts of new immigration. Advocates of guestworker programs have been deficient in addressing these key economic concerns.

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End Notes

¹ Jeffrey S. Passol, *The Size and Characteristics of the Unauthorized Migrant Population in the U.S.: Estimates Based on the March 2005 Current Population Survey*. Pew Hispanic Center, Washington DC, March 2006.

² Our estimates of the size of the immigrant labor force are based on applying population shares by age/sex group and labor force participation rates for key age/sex groups in the new immigrant population to Pew estimates of the number of illegal immigrants for each of these age/sex groups.

³ All of this increase was among native-born males aged 16 to 29. This age cohort increased in size by more than 1.6 million. However, this was partially offset by a decline of 537,000 in the number of native-born persons aged 30 to 34 in the nation.

⁴ Steven Canarotta found this was the case between foreign-born and native-born workers in general. See Steven Canarotta, *Dropping Out: Immigrant Entry and Native Exit from the Labor Market, 2000-2005*, Center for Immigration Studies, Washington DC, March 2006. <http://www.cis.org/articles/2006/back206.html>

⁵ For recent statistical evidence on the links between immigrant worker inflows and the employment of native-born workers, see: (i) George Borjas, "The Labor Demand Curve is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," *Quarterly Journal of Economics*, November 2003, pp. 1335-1374; (ii) Paulo Tobias, *The Employment Experiences of Immigrants in General City Labor Markets: The Influence of Demographic, Human Capital Traits, Family Background, and Environmental Factors*, M.A. Workshop Paper, Department of Economics, Northeastern University, Boston, 2004; (iii) Ishwar Khatiwada, Andrew Sum, and Tim Barnicle, *New Foreign Immigrant Workers and the Labor Market in the United States*, February 2006.

⁶ See: (i) William Julius Wilson, *When Work Disappears*, Alfred Knopf, New York, 1996; (ii) Katherine S. Newman, *No Shame in My Game: The Working Poor in the Inner City*, Russell Sage Foundation, New York, 1999.

⁷ The immigration variable is defined as the ratio of the number of new immigrant labor force participants in the state between 2000 and 2003 to the size of the resident civilian labor force of the state in 2003.

⁸ The models are linear probability models estimated by ordinary least squares regression techniques. The coefficient on the foreign immigrant labor force variable indicates the percentage point change in the likelihood of employment among the designated group from a 1 percentage point increase in the state's civilian labor force due to new immigration.

⁹ There were 127,151 16-24 year old youth in the ACS sample.

¹⁰ The difference between the coefficients of the new immigrant labor force variable in the male and female employment models was large enough to be statistically significant at the .01 level.

¹¹ In fact, the coefficient on the new immigrant labor force variable was not statistically significant at the .05 level in the model for women with 13 or more years of schooling.

¹² The ACS questionnaire asks respondents whether they had been enrolled in school at any time in the prior three months. If they answer "yes" to this question, they are classified as enrolled in school. Persons must be attending a school or college that will lead to the attainment of a regular diploma or a college degree.

¹³ The new immigrant worker variable is measured similarly to that for the previous models based on the ACS 2003 data. It is the ratio of the number of new immigrant labor force participants in 2004 as a percentage of the state's resident labor force in 2004.

¹⁴ The modestly larger coefficient of the immigrant variable in the male equation (.022 vs. .019 for women) is not significantly different from that of women.

¹⁵ For a review of these changing job market operations in Massachusetts and the United States, see: Paul E. Harrington and Andrew Sum, "As Jobs Go Off the Books, Immigrants Edge Out Some Native-Born Workers," *Commonwealth*, Volume 11, Number 2, 2006, pp. 83-90.

¹⁶ For a recent review of conceptual differences between the two surveys, see: Mary Bowles and Tamas L. Moris, "Understanding the Employment Measures from the CPS and CES Surveys," *Monthly Labor Review*, February 2006, pp. 23-38.

¹⁷ It is not clear that all off-the-books workers will report their employment to the CPS interviewer despite guarantees of confidentiality. Besides, immigrants have been historically undercounted in the CPS survey.

¹⁸ Changes in multiple job holding can also be a source of divergent growth in employment levels between the two surveys. While important in the past, this factor appears to have had little impact on the employment estimates of the two surveys during the first half of this decade. The number of persons who held multiple jobs remained virtually unchanged between 2000 (7.556 million) and 2005 (7.546 million). See: U.S. Bureau of Labor Statistics, *Employment and Earnings*, January 2001 and January 2006, Washington, D.C.

¹⁹ Jeffrey Passol estimates that fewer than 4 percent of all illegal workers in the nation worked as agricultural workers in 2005.

²⁰ See: (i) Naomi R. Kooker, "Hospitality Immigrant Quandary," *Boston Business Journal*, April 2006; (ii) Josh McHugh, "Notes from the Underground Economy," *cnn.money.com*, May 30, 2005; (iii) Casey Ross, "Contractors Stop the Illegal Issuance," *The Boston Herald*, May 5, 2006; (iv) Peter Redl, "Shadow Workers: Towns Take Aim at Illegal Restaurant Help," *The Boston Herald*, May 4, 2006; (v) Shawn Sumner, "Illegal Immigrants: These Workers Are Often Anxious and in a Constant State of Fear," *Worcester Telegram*, April 16, 2006.

²¹ These estimates are based on our analysis of the March 2004 and March 2005 CPS work experience supplements, which capture information on health insurance and pension coverage.

²² *The Washington Post* recently reported that, during 1999, only 182 employers were prosecuted for unlawfully employing immigrants. Remarkably this figure fell to just four prosecutions during 2003. See: Spencer S. Hsu and Karl Lyden, "Illegal Hiring Is Rarely Penalized," *The Washington Post*, June 19, 2006.



Backgrounder

The Impact of New Immigrants on Young Native-Born Workers, 2000-2005

By Andrew Sum, Paul Harrington, and Ishwar Khatriwada

Over the 2000-2005 period, immigration levels remained very high and roughly half of new immigrant workers were illegal. This report finds a strong negative relationship between the arrival of new immigrants (legal and illegal) in a state and a decline in employment among young native-born workers in that state. Our findings indicate that young native-born workers are being displaced in the labor market by the arrival of new immigrants.

- Between 2000 and 2005, 4.1 million immigrant workers arrived from abroad, accounting for 86 percent of the net increase in the total number of employed persons (16 and older), the highest share ever recorded in the United States.
- Of the 4.1 million new immigrant workers, between 1.4 and 2.7 million are estimated to be illegal immigrants. This means that illegal immigrants accounted for up to 56 percent of the net increase in civilian employment in the United States over the past five years.

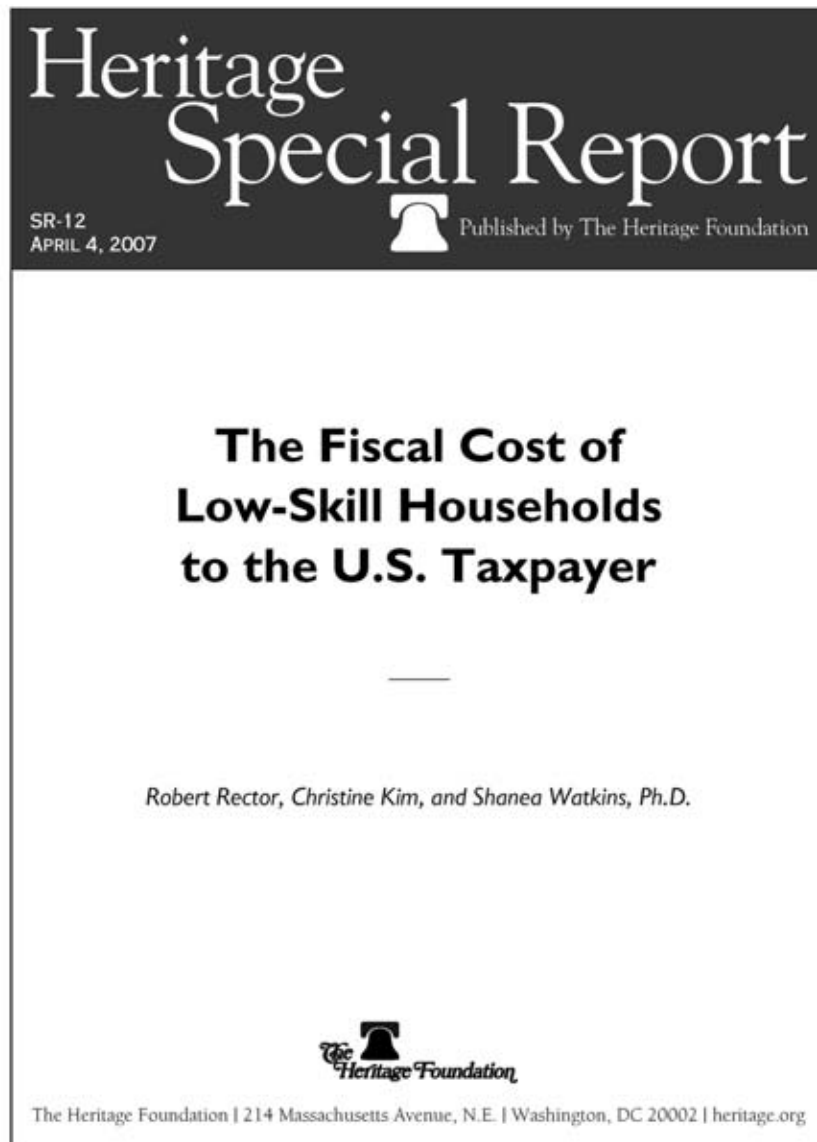
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“THE FISCAL COSTS OF LOW-SKILL HOUSEHOLDS TO THE U.S. TAXPAYER” BY ROBERT RECTOR, CHRISTINE KIM, AND SHANEA WILKINS, PH.D. OF THE HERITAGE FOUNDATION, SUBMITTED BY THE HONORABLE STEVE KING



**The Fiscal Cost of
Low-Skill Households
to the U.S. Taxpayer**

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Executive Summary

Each year, families and individuals pay taxes to the government and receive back a wide variety of services and benefits. When the benefits and services received by one group exceed the taxes paid, a distributional deficit occurs, and other groups must pay for the services and benefits of the group in deficit. Each year, government is involved in a large-scale transfer of resources between different social groups.

This paper provides a fiscal distribution analysis of households headed by persons without a high school diploma. The report refers to these households as “low-skill households.” The analysis measures the total benefits and services received by these households compared to total taxes paid. The difference between benefits received and taxes paid represents the total resources transferred by government on behalf of this group from the rest of society.

The size and cost of government are far larger than many people imagine. In fiscal year (FY) 2004, federal, state, and local expenditures combined amounted to \$3.75 trillion. One way to grasp the size of government more readily is to calculate average expenditures per household. In 2004, there were some 115 million households (multi-person families and single persons living alone) in the U.S. Government spending thus averaged \$32,706 per household across the U.S. population.

Government expenditures can be divided into six categories. The first four, which can be termed “immediate benefits and services,” are:

- **Direct benefits**, which include Social Security, Medicare, and a few smaller transfer programs;
- **Means-tested benefits**, including cash, food, housing, social services, and medical care for poor and near poor individuals;
- **Public educational services**, which include the governmental cost of primary, secondary, vocational, and post-secondary education;
- **Population-based services**, which are government services made available to a general community including police and fire protection, highways, sewers, food safety inspection, and parks.

Two additional spending categories are:

- **Interest and other financial obligations resulting from prior government activity**, including interest payments on government debt and other expenditures relating to the cost of government services provided in earlier years; and
- **Pure public goods**, which include national defense, international affairs and scientific research, and some environmental expenditures.

On average, low-skill households receive more government benefits and services than do other households. In FY 2004, low-skill households received \$32,138 per household in immediate benefits and services (direct benefits, means-tested benefits, education, and population-based services). If public goods and the cost of interest and other financial obligations are added, total benefits rose to \$43,084 per low-skill household. In general, low-skill households received about \$10,000 more in government benefits than did the average U.S. household, largely because of the higher level of means-tested welfare benefits received by low-skill households.

In contrast, low-skill households pay less in taxes than do other households. On average, low-skill households paid only \$9,689 in taxes in FY 2004. Thus, low-skill households received at least three dollars in immediate benefits and services for each dollar in taxes paid. If the costs of public goods and past financial obligations are added, the ratio rises to four to one.

Strikingly, low-skill households in FY 2004 had average earnings of \$20,564 per household. Thus, the \$32,138 per household in government immediate benefits and services received by these households not only exceeded their taxes paid, but also substantially exceeded their average household earned income.

A household's net fiscal deficit equals the cost of benefits and services received minus taxes paid. If the costs of direct and means-tested benefits, education, and population-based services alone are counted, the average low-skill

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household had a fiscal deficit of \$22,449 (expenditures of \$32,138 minus \$9,689 in taxes). The average net fiscal deficit of a low-skill household actually exceeded the household's earnings.

If interest and other financial obligations relating to past government activities are added, the average deficit per household rose to \$27,301. In addition, the average low-skill household was a free rider with respect to government public goods, receiving public goods costing some \$6,095 per household for which it paid nothing.

Receiving, on average, at least \$22,449 more in benefits than they pay in taxes each year, low-skill households impose substantial long-term costs on the U.S. taxpayer. Assuming an average adult life span of 50 years for each head of household, the average lifetime costs to the taxpayer will be \$1.1 million for each low-skill household for immediate benefits received minus all taxes paid. If the cost of interest and other financial obligations is added, the average lifetime cost rises to \$1.3 million per low-skill household.

In 2004, there were 17.7 million low-skill households. With an average net fiscal deficit of \$22,449 per household, the total annual fiscal deficit (total benefits received minus total taxes paid) for all of these households equaled \$397 billion (the deficit of \$22,449 per household times 17.7 million households). This sum includes direct and means-tested benefits, education, and population-based services. If the low-skill households' share of interest and other financial obligations for past activities is added, their total annual fiscal deficit rises to \$483 billion. Over the next ten years the total cost of low-skill households to the taxpayer (immediate benefits minus taxes paid) is likely to be at least 3.9 trillion dollars. This number would go up significantly if changes in immigration policy lead to substantial increases in the number of low-skill immigrants entering the country and receiving services.

Politically feasible changes in government policy will have little effect for decades on the level of fiscal deficit generated by most low-skill households. For example, to make the average low-skill household fiscally neutral (taxes paid equaling immediate benefits received and the appropriate share of interest on government debt), it would be necessary to eliminate Social Security, Medicare, all 60 means-tested aid programs and cut the cost of public education in half. It seems certain that, on average, low-skill households will generate deep fiscal deficits for the foreseeable future. Policies that reduce the future number of high school dropouts and other policies affecting future generations could reduce long-term costs.

Policies that would expand Medicaid and other entitlements will increase the size of future deficits of low-skill households at the margin. On the other hand, policy changes that curtailed medical inflation could reduce costs at the margin in future years. Policies which would halt the growth of out-of-wedlock childbearing or increase real educational attainments of future generations could also limit the growth of future deficits somewhat. However, these policy changes would be dwarfed by any alteration in immigration policy that would substantially increase the future inflow of low-skill immigrants; such a policy would dramatically increase the future fiscal burden to taxpayers.

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The Fiscal Cost of Low-Skill Households to the U.S. Taxpayer

Introduction

Each year, families and individuals pay taxes to the government and receive back a wide variety of services and benefits. A fiscal deficit occurs when the benefits and services received by one group exceed the taxes paid. When such a deficit occurs, other groups must pay for the services and benefits of the group in deficit. Each year, government is involved in a large-scale transfer of resources between different social groups.

Fiscal distribution analysis measures the distribution of total government benefits and taxes in society. It provides an assessment of the magnitude of government transfers between groups. This paper provides a fiscal distribution analysis of households headed by persons without a high school diploma. It measures the total benefits and services received by this group and the total taxes paid. The difference between benefits received and taxes paid represents the total resources transferred by government on behalf of this group from the rest of society.

The first step in an analysis of the distribution of benefits and taxes is to count accurately the cost of all benefits and services provided by the government. The size and cost of government is far larger than many people imagine. In fiscal year (FY) 2004, the expenditures of the federal government were \$2.3 trillion. In the same year, expenditures of state and local governments were \$1.45 trillion. The combined value of federal, state, and local expenditures in FY 2004 was \$3.75 trillion.¹

The sum of \$3.75 trillion is so large that it is difficult to comprehend. One way to grasp the size of government more readily is to calculate average expenditures per household. In 2004, there were some 115 million households in the U.S.² (This figure includes multi-person families and single persons living alone.) The average cost of government spending thus amounted to \$32,706 per household across the U.S. population.³

The \$3.75 trillion in government expenditure is not free but must be paid for by taxing or borrowing economic resources from Americans or by borrowing from abroad. In general, government expenditures are funded by taxes and fees. In FY 2004, federal taxes amounted to \$1.82 trillion. State and local taxes and related revenues amounted to \$1.6 trillion.⁴ Together, federal, state, and local taxes amounted to \$3.43 trillion. At \$3.43 trillion, taxes and related revenues came to 91 percent of the \$3.75 trillion in expenditures. The gap between taxes and spending was financed by government borrowing.

Types of Government Expenditure

Once the full cost of government benefits and services has been determined, the next step in the analysis of the distribution of benefits and taxes is to determine the beneficiaries of specific government programs. Some programs, such as Social Security, neatly parcel out benefits to specific individuals. With programs such as these, it is relatively easy to determine the identity of the beneficiary and the cost of the benefit provided. At the opposite extreme, other government programs (for example, medical research at the National Institutes of Health) do not neatly parcel out benefits to individuals. Determining the proper allocation of the benefits of that type of program is more difficult.

1. See Appendix Tables A-1, A-2A, A-2B, and A-2C.

2. This figure includes persons in nursing homes. See Appendix A.

3. In measuring the distribution of benefits and services, this paper will count the value of each benefit and service as equal to the cost borne by the taxpayer to deliver it. The cost of any benefit to the taxpayer does not necessarily equal the subjective value the beneficiary may place upon the benefit. For example, if the food stamp program provides a family \$400 per month in food stamp benefits, the family itself may value the food stamps at more or less than \$400. Similarly, if child receives public education costing \$10,000 per pupil per year, the child's family may value these education services subjectively as worth more or less than \$10,000. While the question of recipient valuation of government benefits is an interesting one, this paper is concerned with the basic question of the distribution of benefits valued according to their costs to taxpayers.

4. This figure includes property income earned by the government such as the sale of assets or interest earned on assets.

The Fiscal Cost of Low-Skill Households to the U.S. Taxpayer

To ascertain most accurately the distribution of government benefits and services, this study begins by dividing government expenditures into six categories: direct benefits; means-tested benefits; educational services; population-based services; interest and other financial obligations resulting from prior government activity; and pure public goods.

Direct Benefits. Direct benefit programs involve either cash transfers or the purchase of specific services for an individual. Unlike means-tested programs (described below), direct benefit programs are not limited to low-income persons. By far the largest direct benefit programs are Social Security and Medicare. Other substantial direct benefit programs are Unemployment Insurance and Workmen's Compensation.

Direct benefit programs involve a fairly transparent transfer of economic resources. The benefits are parceled out discretely to individuals in the population; both the recipient and the cost of the benefit are relatively easy to determine. In the case of Social Security, the cost of the benefit would equal the value of the Social Security check plus the administrative costs involved in delivering the benefit.

Calculating the cost of Medicare services is more complex. Ordinarily, government does not seek to compute the particular medical services received by an individual. Instead, government counts the cost of Medicare for an individual as equal to the average per capita cost of Medicare services. (This number equals the total cost of Medicare services divided by the total number of recipients.)⁵ Overall, government spent \$840 billion on direct benefits in FY 2004.

Means-Tested Benefits. Means-tested programs are typically termed welfare programs. Unlike direct benefits, means-tested programs are available only to households below specific income thresholds. Means-tested welfare programs provide cash, food, housing, medical care, and social services to poor and low-income persons.

The federal government operates over 60 means-tested aid programs.⁶ The largest of these are Medicaid; the Earned Income Tax Credit (EITC); food stamps; Supplemental Security Income (SSI); Section 8 housing; public housing; Temporary Assistance to Needy Families (TANF); the school lunch and breakfast programs; the WIC (Women, Infants, and Children) nutrition program; and the Social Services Block Grant (SSBG). Many means-tested programs, such as SSI and the EITC, provide cash to recipients. Others, such as public housing or SSBG, pay for services that are provided to recipients.

The value of Medicaid benefits is usually counted in a manner similar to Medicare benefits. Government does not attempt to itemize the specific medical services given to an individual; instead, it computes an average per capita cost of services to individuals in different beneficiary categories such as children, elderly persons, and disabled adults. (The average per capita cost for a particular group is determined by dividing the total expenditures on the group by the total number of beneficiaries in the group.) Overall, the U.S. spent \$564 billion on means-tested aid in FY 2004.⁷

Public Education. Government provides primary, secondary, post-secondary, and vocational education to individuals. In most cases, the government pays directly for the cost of educational services provided. In other cases, such as the Pell Grant program, the government in effect provides money to an eligible individual who then spends it on educational services.

Education is the single largest component of state and local government spending, absorbing roughly a third of all state and local expenditures. The average per pupil cost of public primary and secondary education is now around \$9,600 per year. Overall, federal, state, and local governments spent \$590 billion on education in FY 2004.

Population-Based Services. Whereas direct benefits, means-tested benefits, and education services provide discrete benefits and services to particular individuals, population-based programs generally provide services to a whole group or community. Population-based expenditures include police and fire protection, courts, parks, sanitation, and food safety and health inspections. Another important population-based expenditure is transportation, especially roads and highways.

5. For example, the Census Bureau assigns Medicare costs in this manner in the Current Population Survey.

6. Congressional Research Service, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002–FY2004*, March 27, 2006.

7. This spending figure excludes means-tested veterans programs and most means-tested education programs.

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A key feature of population-based expenditures is that such programs generally need to expand as the population of a community expands. (This quality separates them from pure public goods, described below.) For example, as the population of a community increases, the number of police and firemen will generally need to expand in proportion.

In its study of the fiscal costs of immigration, *The New Americans*, the National Academy of Sciences argued that if service remains fixed while the population increases, a program will become "congested," and the quality of service for users will deteriorate. Thus, the NAS uses the term "congestible goods" to describe population-based services.⁸ Highways are an obvious example of this point. In general, the cost of population-based services can be allocated according to an individual's estimated utilization of the service or at a flat per capita cost across the relevant population.

A sub-category of population-based services is government administrative support functions such as tax collections and legislative activities. Few taxpayers view tax collection as a government benefit; therefore, assigning the cost of this "benefit" appears problematic.

The solution to this dilemma is to conceptualize government activities into two categories: primary functions and secondary functions. Primary functions provide benefits directly to the public; they include direct and means-tested benefits, education, ordinary population-based services such as police and parks and public goods. By contrast, secondary or support functions do not provide direct benefits to the public but do provide necessary support services that enable the government to perform primary functions. For example, no one can receive food stamp benefits unless the government first collects taxes to fund the program. Secondary functions can thus be considered an inherent part of the "cost of production" of primary functions, and the benefits of secondary support functions can be allocated among the population in proportion to the allocation of benefits from government primary functions.

Government spent \$662 billion on population-based services in FY 2004. Of this amount, some \$546 billion went for ordinary services such as police and parks, and \$116 billion went for administrative support functions.

Interest and Other Financial Obligations Relating to Past Government Activities. Often, tax revenues are insufficient to pay for the full cost of government benefits and services. In that case, government will borrow money and accumulate debt. In subsequent years, interest payments must be paid to those who lent the government money. Interest payments for the government debt are in fact partial payments for past government benefits and services that were not fully paid for at the time of delivery.

Similarly, government employees deliver services to the public; part of the cost of the service is paid for immediately through the employee's salary. But government employees are also compensated by future retirement benefits. Expenditures of public sector retirement are thus, to a considerable degree, present payments in compensation for services delivered in the past. The expenditure category "interest and other financial obligations relating to past government activities" thus includes interest and principal payments on government debt and outlays for government employee retirement. Total government spending on these items equaled \$468 billion in FY 2004.⁹

Allocation of the benefit of this spending is problematic since the benefits were actually delivered in past years, but a definite portion of spending on interest and employee retirement was generated by past expenditures on behalf of low-skill households. Broadly conceived, spending on behalf of low-skill households includes not only spending for benefits in the current year, but also lagged spending that relates to outlays on such households in earlier years. In this sense, the low-skill households' share of interest and government employee retirement outlays would be proportionate to their share of government expenditures in prior years. Although calculating the low-skill households' share of spending in prior years would be very complex, the present analysis approximates this figure by assuming that these households' share of expenditures in prior years is equal to its share of FY 2004 expenditures.

An alternative approach to allocating interest and employee retirement costs would employ the distinction between government primary and secondary functions described in the prior section. If government failed to pay interest on its existing debt, it would be unable to borrow in the future; benefits would have to be slashed or taxes raised steeply. Gov-

8. National Research Council, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Washington, D.C.: National Academy Press, 1997), p. 303.

9. Of this total, an estimated \$67 billion represents the costs of financial obligations resulting from past public goods expenditures. These costs are entered in the public goods category in Table 1.

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ernment's honoring of past financial obligations is thus an essential secondary function, a necessary cost of business that enables government to perform its primary functions. The ultimate beneficiaries of this secondary function are the beneficiaries of the primary functions that can be continued because government fulfills its debt obligations. The low-skill households' share of expenditures on these secondary functions would equal their share of benefits from primary function expenditures in FY 2004. Both approaches to allocating costs relating to interest and related financial obligations yield the same level of spending on behalf of low-skill households in FY 2004.

Pure Public Goods. Economic theory distinguishes between "private consumption goods" and pure public goods. Economist Paul Samuelson is credited with first making this distinction. In his seminal 1954 paper "The Pure Theory of Public Expenditure,"¹⁰ Samuelson defined a pure public good (or what he called in the paper a "collective consumption good") as a good "which all enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good." By contrast, a "private consumption good" is a good that "can be parceled out among different individuals." Its use by one person precludes or diminishes its use by another.

A classic example of a pure public good is a lighthouse: The fact that one ship perceives the warning beacon does not diminish the usefulness of the lighthouse to other ships. Another clear example of a governmental pure public good would be a future cure for cancer produced by government-funded research. The fact that non-taxpayers would benefit from this discovery would neither diminish its benefit nor add extra costs to taxpayers. By contrast, an obvious example of a private consumption good is a hamburger: When one person eats it, it cannot be eaten by others.

Direct benefits, means-tested benefits, and education services are private consumption goods in the sense that use of a benefit or service by one person precludes or limits the use of that same benefit by other. (Two people cannot cash the same Social Security check.) Population-based services such as parks and highways are often mentioned as "public goods," but they are not pure public goods in the strict sense described above. In most cases, as the number of persons using a population-based service (such as highways and parks) increases, either the service must expand (at added cost to taxpayers) or the service will become "congested" and its quality will be reduced. Consequently, use of population-based services such as police and fire departments by non-taxpayers does impose significant extra costs on taxpayers.

Government pure public goods are rare; they include scientific research, defense, spending on veterans, international affairs, and some environmental protection activities such as the preservation of endangered species. Each of these functions generally meets the criterion that the benefits received by non-taxpayers do not result in a loss of utility for taxpayers. Government pure public good expenditures on these functions equaled \$628 billion in FY 2004. Interest payments on government debt and related costs resulting from public good spending in previous years add an estimated additional cost of \$67 billion, bringing the total public goods cost in FY 2004 to \$695 billion.

Although low-income households that pay little or no tax do benefit from pure public good programs, their gain neither adds costs nor reduces benefits for others. Thus, the benefit gleaned by non-taxpayers from these pure public good functions does not impose an extra burden on society. However, households that pay little or no tax are "free riders" on public good programs in the sense that they benefit from government activities for which they have not paid. (For a further discussion of pure public goods, see Appendix B.)

Summary: Total Expenditures. As Table 1 shows, overall government spending in FY 2004 came to \$3.75 billion, or \$32,706 per household across the entire U.S. population. Direct benefits had an average cost of \$7,326 per household across the whole population, while means-tested benefits had an average cost of \$4,920 per household. Education benefits and population-based services cost \$5,143 and \$5,765, respectively. Interest payments on government debt and other costs relating to past government activities cost \$3,495 per household. Pure public good expenditures comprised 18.5 percent of all government spending and had an average cost of \$6,056 per household.

A detailed breakdown of expenditures is provided in Appendix Table A-1 for federal expenditures and Appendix Tables A-2A, A-2B, and A-2C for state and local expenditures.

10. Paul A. Samuelson, "The Pure Theory of Public Expenditure," *Review of Economics and Statistics*, Vol. 36, No. 4 (1954), pp. 387-389.

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Table | SR.12

Summary of Total Federal, State, and Local Expenditures, FY 2004

	Federal Expenditures (in millions)	State and Local Expenditures (in millions)	Total Expenditures (in millions)	Percentage of Total Expenditures	Average Expenditure per Household Whole Population (in dollars)
Direct Benefits	783,350	57,607	840,957	22.4%	\$7,326
Means-tested Benefits	406,512	158,240	564,752	15.0%	\$4,920
Educational Benefits	39,621	530,801	590,422	15.7%	\$5,113
Population-Based Services	180,122	481,696	661,818	17.6%	\$5,765
Interest and Related Costs*	182,000	219,260	401,260	10.7%	\$3,495
Pure Public Goods Expenditures	694,153	1,050	695,203	18.5%	\$6,056
Total Expenditures	2,305,758	1,448,654	3,754,412	100.0%	\$32,706
Total Expenditures Less Public Good Expenditures	1,611,605	1,447,604	3,059,209		\$26,660

* Excludes interest costs resulting from public goods expenditures in prior years.
Source: Appendix Tables 1 and 2c.

Taxes and Revenues

Total taxes and revenues for federal, state, and local governments amounted to \$3.43 trillion in FY 2004, with an average cost of \$29,919 per household across the whole population. A detailed breakdown of federal, state, and local taxes is provided in Appendix Table A-3. The biggest revenue generator was the federal income tax, which cost the taxpayers \$808 billion in 2003, followed by Federal Insurance Contribution Act (FICA) taxes, which gathered \$685 billion.

Property tax was the biggest revenue producer at the state and local levels, generating \$318 billion, while general sales taxes gathered \$244 billion.

Summary of Estimation Methodology

This paper seeks to estimate the total cost of benefits and services received, and the total value of taxes paid, by households headed by persons without a high school diploma. To produce this estimate, calculations were performed on 50 separate expenditure categories and 33 tax and revenue categories. These calculations are explained in detail in Appendix A and presented in Appendix Tables A-4 and A-5. The present section will briefly summarize the procedures used.

Data on receipt of direct and means-tested benefits were taken from the U.S. Census Bureau's Current Population Survey (CPS). Data on attendance in public primary and secondary schools were also taken from the CPS; students attending public school were then assigned educational costs equal to the average per pupil expenditures in their state. Public post-secondary education costs were calculated in a similar manner.

Wherever possible, the cost of population-based services was based on the estimated utilization of the service by low-skill households. For example, the low-skill households' share of highway expenditures was assumed to equal their share of gasoline consumption as reported in the Bureau of Labor Statistics Consumer Expenditure Survey (CEX). When data on utilization of a service were not available, the estimated low-skill households' share of population-based services was assumed to equal their share of the total U.S. population.

The share of public goods received by low-skill households was assumed to equal their share of the total U.S. population. The low-skill households' share of the cost of interest and other financial obligations relating to past government activities was assumed to equal their share of current expenditures on direct and means-tested benefits, education, population-based services, and public goods.

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Federal and state income taxes were calculated based on data from the CPS. FICA taxes were also calculated from CPS data and were assumed to fall solely on workers.

Sales, excise, and property tax payments were based on consumption data from the Consumer Expenditure Survey. For example, if the CEX showed that low-skill households accounted for 10 percent of all tobacco product sales in the U.S., those households were assumed to pay 10 percent of all tobacco excise taxes.

Corporate income taxes were assumed to be borne partly by workers and partly by owners; the distribution of these taxes was estimated according to the distribution of earnings and property income in the CPS.

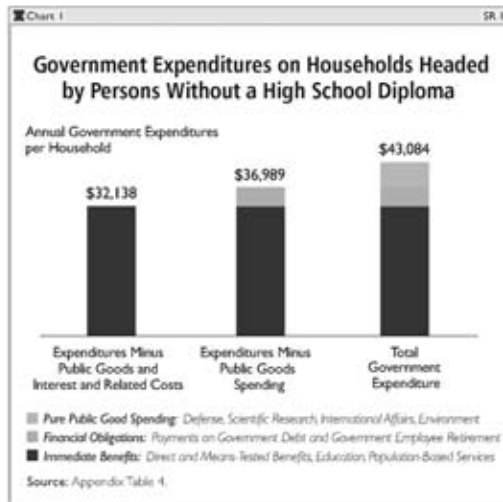
A fundamental rule in the analysis was that the estimated expenditure for each program for the whole population had to equal actual government outlays for that program. Similarly, total revenue for each estimated tax had to equal total revenue from the tax as reported in government budget documents.

CPS data are problematic in this respect since they generally underreport both benefits received and taxes paid. Consequently, both benefits and tax data from the CPS had to be adjusted for underreporting. The key assumption in this adjustment process was that households headed by persons without a high school diploma (low-skill households) and the general population underreport benefits and taxes to a similar degree. Thus, if food stamp benefits were underreported by 10 percent in the CPS as a whole, then low-skill households were also assumed to underreport food stamp benefits by 10 percent. In the absence of data suggesting that low-skill and high-skill households underreport at different rates, this seemed to be a reasonable working assumption.

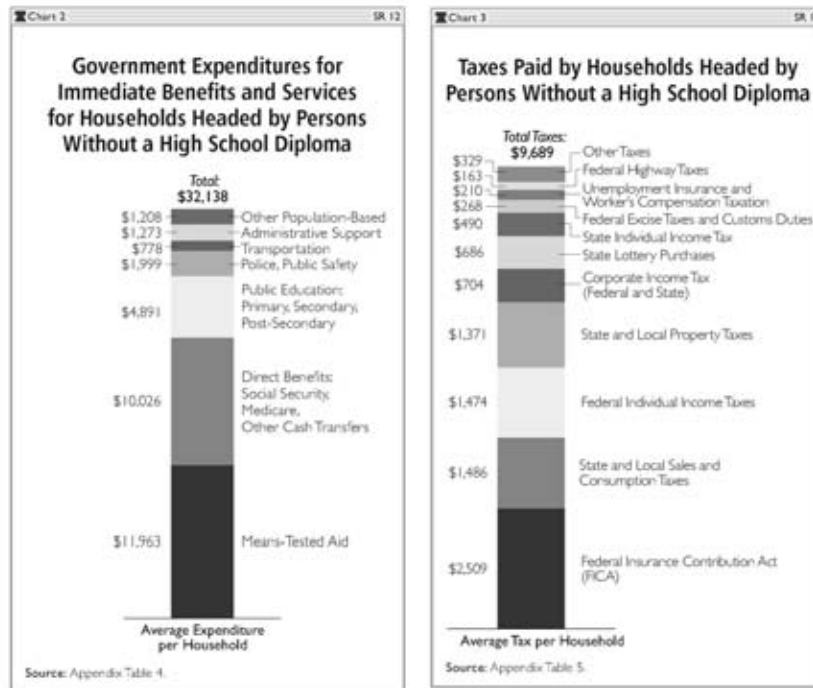
Costs of Benefits and Services for Low-Skill Households. The focus of this paper is the benefits received and taxes paid by households headed by persons without a high school diploma. (Throughout the paper, these households are also called low-skill households.) In 2004, there were 17.7 million such households in the U.S. Appendix Table A-4 shows the estimated costs of government benefits and services received by these households in 50 separate expenditure categories. The results are summarized in Charts 1 and 2.

Overall, households headed by persons without a high school diploma (or low-skill households) received an average of \$32,138 per household in direct benefits, means-tested benefits, education, and population-based services in FY 2004. If expenditures for interest and other financial obligations relating to past government activities are added to the count, expenditures rise to \$36,989 per household. If the cost of public goods is added, annual total expenditures on benefits and services come to \$43,084 per low-skill household.

Chart 2 gives a more detailed breakdown of the immediate benefits and services received by low-skill households. Means-tested aid came to \$11,963 per household, while direct benefits (mainly Social Security and Medicare) amounted to \$10,026. Education spending on behalf of these households averaged \$4,891 per household, while spending on police, fire, and public safety came to \$1,999 per household. Transportation added another \$778, while administrative support services cost \$1,273. Miscellaneous population-based services added a final \$1,208.



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It is important to note that the costs of benefits and services outlined in Chart 2 are a composite average of all low-skill households. They represent the total costs of benefits and services received by all low-skill households divided by the number of such households. It is unlikely that any single household would receive this exact package of benefits; for example, it is rare for a household to receive Social Security benefits and primary and secondary education services at the same time. Nonetheless, the figures are an accurate portrayal of the governmental costs of low-skill households as a group. When combined with similar data on taxes paid, they enable an assessment of the fiscal status of such households as a group and their impact on other taxpayers.

Taxes and Revenues Paid by Low-Skill Households. Appendix Table A-5 details the estimated taxes and revenues paid by low-skill households in 31 categories. The results are summarized in Chart 3. As the chart shows, total federal, state, and local taxes paid by low-skill households came to \$9,689 per household in 2004. Federal and state individual income taxes comprised only 20 percent of total taxes paid. Instead, taxes on consumption and employment produced the bulk of the tax burden for low-skill households.

The single largest tax payment was \$2,509 per household in Federal Insurance Contribution Act (FICA) tax. (Workers were assumed to pay both the employee and employer share of FICA taxes.) On average, low-skill households paid \$1,486 in state and local sales and consumption taxes. The analysis assumed that a significant portion of property taxes on rental and business properties was passed through to renters and consumers; this contributed to a

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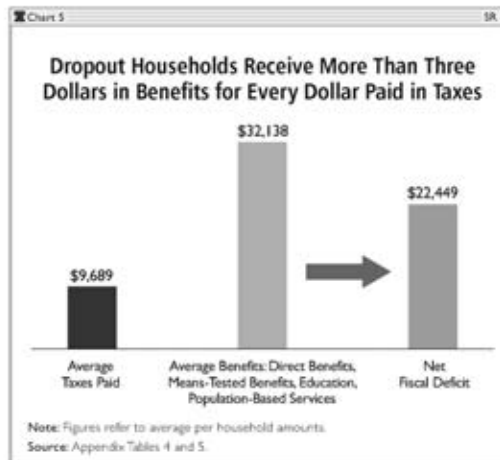
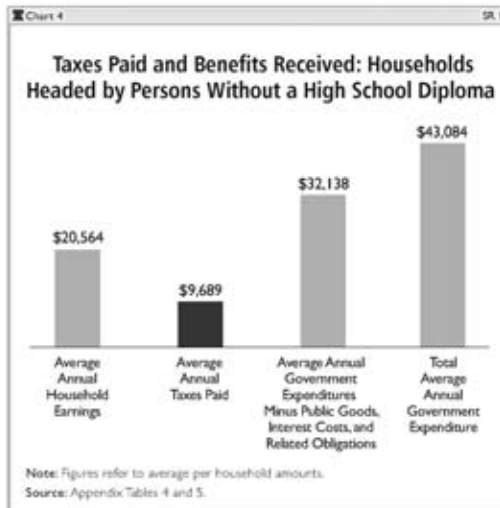
\$1,371 property tax burden for the average low-skill household. The analysis also assumed that 70 percent of corporate income taxes fell on workers; this contributed to an average \$704 corporate tax burden for low-skill households. Low-skill households are frequent participants in state lotteries, with an estimated average purchase of \$686 in lottery tickets per household in 2004.

Balance of Taxes and Benefits. On average, low-skill households received \$32,138 per household in immediate government benefits and services in FY 2004, including direct benefits, means-tested benefits, education, and population-based services. Total benefits rose to \$43,084 if public goods and the cost of interest and other financial obligations are added.

By contrast, low-skill households paid only \$9,689 in taxes. Thus, low-skill households received at least three dollars in benefits and services for each dollar in taxes paid. If the costs of public goods and past financial obligations are added, the ratio rises to four to one.

Strikingly, as Chart 4 shows, low-skill households in FY 2004 had average earnings of \$20,564 per household; thus, the average cost of government benefits and services received by these households not only exceeded the taxes paid by these households, but substantially exceeded the average earned income of these households.

Net Annual Fiscal Deficit. The net fiscal deficit of a household equals the cost of benefits and services received minus taxes paid. As Chart 5 shows, if the costs of direct and means-tested benefits, education, and population-based services alone were counted, the average low-skill household had a fiscal deficit of \$22,449 (expenditures of \$32,138 minus \$9,689 in taxes). The net fiscal deficit of the average low-skill household actually exceeded the household's earnings. If interest and other financial obligations relating to past government activities were added as well, the average deficit per household rose to \$27,301.



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In addition, the average low-skill household was a free rider with respect to government public goods, receiving public goods costing some \$6,095 per household for which it paid nothing.

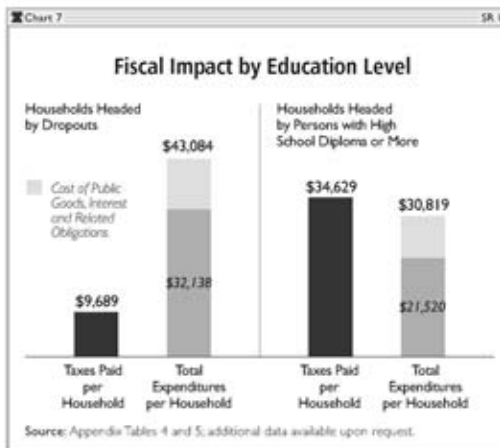
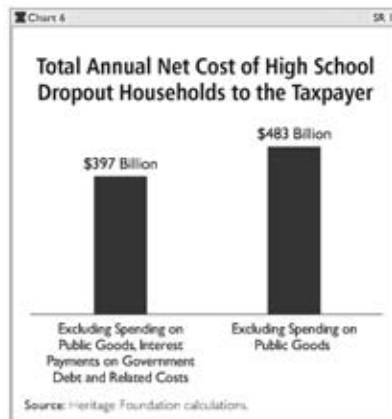
Net Lifetime Costs. Receiving, on average, at least \$22,449 more in benefits than they pay in taxes each year, low-skill households impose substantial long-term costs on the U.S. taxpayer. Assuming an average 50-year adult life span for heads of household, the average lifetime costs to the taxpayer will be \$1.1 million for each low-skill household, net of any taxes paid. If the costs of interest and other financial obligations are added, the average lifetime cost rises to \$1.3 million per household.

Aggregate Net Fiscal Costs. In 2004, there were 17.7 million low-skill households. As shown in Chart 5, the average net fiscal deficit per household was \$22,449. This means that the total annual fiscal deficit (total benefits received minus total taxes paid) for all 17.7 million low-skill households together equaled \$397 billion (the deficit of \$22,449 per household times 17.7 million households). This sum includes direct and means-tested benefits, education, and population-based services.

If the low-skill households' share of interest and other financial obligations for past activities is added, the total annual fiscal deficit of these households rose to \$483 billion. Over the next ten years, the constant dollar net cost of low-skill households (immediate benefits received minus taxes paid) is likely to be at least \$3.9 trillion. Policy changes that would expand entitlement programs such as Medicaid will increase these costs at the margin. On the other hand, changes in immigration law that would significantly increase the inflow of low-skill workers and families will increase future government spending dramatically.

Low-Skill Households Compared to Other Households. Chart 7 compares households headed by persons without a high school diploma to households headed by persons with a high school diploma or better. Whereas the dropout-headed household paid only \$9,689 in taxes in FY 2004, the higher-skill households paid \$34,629—more than three times as much. While dropout-headed households received from \$32,138 to \$43,084 in benefits, high-skill households received less: \$21,520 to \$30,819. The difference in government benefits was due largely to the greater amount of means-tested aid received by low-skill households.

Households headed by dropouts received \$22,449 more in immediate benefits (i.e., direct and means-tested aid, education, and population-based



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services) than they paid in taxes. Higher-skill households paid \$13,109 more in taxes than they received in immediate benefits.

Externalities of Benefits. It might be argued that certain government benefits generate positive externalities; that is, they benefit society at large as well as the immediate beneficiary. This is argued most often with respect to education.

An increase in the skill level of each U.S. worker may have a positive feedback effect that increases the productivity and wage of other workers; thus, everyone will gain indirectly as the overall skill level of U.S. workers rises.

Consequently, it might be argued that all Americans benefit economically from the education of children in low-skill families. If so, it might be further argued that it is inappropriate to assign the full per pupil costs of education to children in low-skill households. But if other households benefit indirectly from the education of children in low-skill families, it is equally true that low-skill families benefit indirectly from the education of children in middle- and upper-class families. This is particularly true of the education of high-skill workers who will produce future technological and managerial innovations that lead to productivity increases.

Thus, if it is true that the education of children in low-skill homes produces positive externalities that raise the incomes of more affluent families, it is equally true that the education of children in more affluent homes will produce positive externalities for low-skill households. Rather than attempting to map the reciprocal externalities of education, it appears simpler to assign the full per pupil cost of public education to the child receiving that education.

Education as a Social Investment. It is sometimes argued that the costs of public education should be "off the books" and should not be counted toward the fiscal deficits generated by low-skill households. Proponents of this view contend that publicly financed education for children in low-skill families represents a positive investment for taxpayers because it will increase the wages earned and taxes paid by those children as adults, thereby reducing the future fiscal drag (benefits in excess of taxes) that their children will impose on society.¹¹ Although this argument obviously has considerable merit, two caveats are in order.

First, even if public education does represent a positive investment for taxpayers, the immediate costs of that investment are real. When children in low-skill families receive public education, other families generally will pay the costs of that education and will be forced to forgo their own economic needs and wants to do so. Consequently, education costs should remain on the ledger when computing the net transfers between social groups.

Second, the potential returns to public education often appear exaggerated. When a child from a lower socioeconomic class receives subsidized public education, three fiscal outcomes are possible:

1. There is no increase in wages, and the child remains in the same deep fiscal deficit as his parents;
2. The child's income increases, and the magnitude of his fiscal deficit is reduced relative to that of his parents, but the child remains in fiscal deficit when becoming an adult; or
3. Education raises the child's income to the point where he becomes a positive fiscal contributor (taxes exceed benefits over a lifetime).

Simplistic accounts of the gains from education often suggest that schooling will enable children from a lower socioeconomic standing to readily achieve the third outcome. Given the regressive nature of the distribution of benefits and the progressive nature of taxation, this seems unlikely. On average, an individual must achieve a fairly high income to become a net fiscal contributor. This does not mean that investment in education is unwise. It simply means that society should be realistic about its expectations with respect to what education can achieve.

Conclusion

Households headed by persons without a high school diploma are roughly 15 percent of all U.S. households. Overall, these households impose a significant fiscal burden on other taxpayers: The cost of the government benefits

11. The analysis in this paper does not include fiscal impacts in the second generation, that is, it does not examine the fiscal status of children in low-skill households once they become adults and begin to live independently. Once a minor child in a low-skill household becomes an adult and moves out of his parents' household, he is no longer included in the fiscal cost analysis for the parents' household.

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they consume greatly exceeds the taxes they pay to government. Before government undertakes to transfer even more economic resources to these households, it should have a very clear account of the magnitude of the economic transfers that already occur.

The substantial net tax burden imposed by low-skill U.S. households also suggests lessons for immigration policy. Recently proposed immigration legislation would greatly increase the number of poorly educated immigrants entering and living in the United States.¹² Before this policy is adopted, Congress should examine carefully the potential negative fiscal effects of low-skill immigrant households receiving services.

Politically feasible changes in government policy will have little effect on the level of fiscal deficit generated by most low-skill households for decades. For example, to make the average low-skill household fiscally neutral (taxes paid equaling immediate benefits received plus interest on government debt), it would be necessary to eliminate Social Security, Medicare, all 60 means-tested aid programs and cut the cost of public education in half. It seems certain that, on average, low-skill households will generate deep fiscal deficits for the foreseeable future. Policies that reduce the future number of high school dropouts and other policies affecting future generations could reduce long-term costs.

Future government policies that would expand entitlement programs such as Medicaid would increase future deficits at the margin. Policies that reduced the out-of-wedlock childbearing rate or which increased the real educational attainments and wages of future low-skill workers could reduce deficits somewhat in the long run.

Changes to immigration policy could have a much larger effect on the fiscal deficits generated by low-skill families. Policies which would substantially increase the inflow of low-skill immigrant workers receiving services would dramatically increase the fiscal deficits described in this paper and impose substantial costs on U.S. taxpayers.

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12. Robert Rector, "Senate Immigration Bill Would Allow 100 Million New Legal Immigrants over the Next Twenty Years," Heritage Foundation WebMemo No. 1076, May 15, 2006. Robert Rector, "Immigration Numbers: Setting the Record Straight," Heritage Foundation WebMemo No. 1097, May 26, 2006.

Appendix A General Methodology

Introduction

This appendix documents the methods used to calculate the spending and tax figures presented in the paper. Throughout, the term “low-skill households” is used as a synonym for households headed by persons without a high school degree.

Data Sources

Data on federal expenditures were taken from *Historical Tables, Budget of the United States Government, Fiscal Year 2006*.¹³ Data on federal taxes and revenues were taken from *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*.¹⁴

State and local aggregate expenditures and revenue data were taken from the U.S. Bureau of Census survey of government finances and employment.¹⁵ Added information on state and local spending categories was taken from U.S. Census Bureau, *Federal State and Local Governments: 1992 Government Finance and Employment Classification Manual*.¹⁶

Detailed information on means-tested spending was taken from Congressional Research Service, *Cash and Non-cash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002–FY2004*. This report provides important information on state and local means-tested expenditures from states’ and localities’ own financial resources as distinct from expenditures funded by federal grants in aid.¹⁷

Data on Medicaid expenditures for different recipient categories were taken from the Medicaid Statistical Information System (MSIS) as published in *Medicare & Medicaid Statistical Supplement, 2006*.¹⁸ Data on the distribution of benefits and distribution of some taxes were taken from the U.S. Census Bureau’s Current Population Survey (CPS) of March 2005 (which covers the year 2004).¹⁹ Additional data on public school attendance were taken from the October 2004 *Current Population Survey*.²⁰ Data on household expenditures were taken from the Bureau of Labor Statistics Consumer Expenditure Survey (CCX) for 2004.²¹

Data on Medicaid expenditures in institutional long-term care facilities were taken from *Medicare & Medicaid Statistical Supplement, 2006*.²² Data on the education levels of elderly persons in institutional long-term care facilities were taken from the National Long Term Care Survey (NLTCs).²³ Data on the number of individuals residing in nursing homes in the average month and the number of Medicaid recipients in nursing homes were taken from the

13. Office of Management and the Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2006*.

14. Office of Management and the Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*, pp. 299–313.

15. See www.census.gov/govs/estimate/0400ussl_1.html.

16. See <http://ftp2.census.gov/govs/class/classfull.pdf>.

17. Congressional Research Service, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002–FY2004*, March 27, 2006.

18. U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, *Medicare & Medicaid Statistical Supplement*, Medicaid Tables 14.1–14.27, 2006. This survey covers 2003.

19. The analysis used an electronic version of the March CPS data from the National Bureau of Economic Research. See www.nber.org/data/cps.html.

20. The analysis used an electronic version of the October CPS data from the National Bureau of Economic Research. See www.nber.org/data/cps.html.

21. U.S. Department of Labor, U.S. Bureau of Labor Statistics, *Consumer Expenditure in 2004*, Report 992, April 2006.

22. U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, *Medicare & Medicaid Statistical Supplement*, Medicaid Tables 14.1–14.27, 2006.

23. Duke University and National Institutes of Health, National Institute on Aging, National Long Term Care Survey, 1999 Public Use Data Files. National Long Term Care Study (NLTCs), 1999 public use dataset. Produced and distributed by the Duke University Center for Demographic Studies with funding from the National Institute on Aging under Grant No. U01-AG007198. The NLTCs is a nationally representative sample of individuals ages 65 years and older in long-term care facilities.

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2004 National Nursing Home Survey (NNHS). Data on the number of individuals in other types of institutions were taken from Census 2000 Summary File 1.²⁴

Count of Households. The Current Population Survey (CPS) reports some 113.15 million households in the U.S. in 2004. In addition, in the average month in 2004, some 1.65 million persons resided in long-term care facilities.²⁵

These long-term care residents were not included in the population reported in the CPS; however, because these individuals are the beneficiaries of a substantial share of Medicaid expenditure, it is important that they be included in any accounting of fiscal balances and distribution. Consequently, the 1.65 million persons in long-term care facilities were included in the present analysis; each individual in such a facility was counted as a separate household, swelling the overall count of households from 113.15 million to 114.8 million.²⁶

Calculating Aggregate Federal, State, and Local Spending. Aggregate federal expenditures at the sub-function level were taken from *Historical Tables, Budget of the United States Government, FY 2007*. These data are presented in Appendix Table A-1. State and local aggregate expenditures were based on data from the U.S. Bureau of Census survey of government.²⁷

Two modifications were necessary to yield an estimate of the overall combined spending for federal, state, and local government. First, some \$408 billion in state and local spending is financed by grants in aid from the federal government. Since these funds are counted as federal expenditures, recording them again as state and local expenditure would constitute a double count. Consequently, federal grants in aid were deducted from the appropriate categories of state and local spending.

A second modification involves the treatment of market-like user fees and charges at the state and local levels. These transactions involve direct payment of a fee in exchange for a government service; for example, payment of an entry fee at a park. User fees are described in the federal budget in the following manner:

[I]n addition to collecting taxes...the Federal Government collects income from the public from market-oriented activities and the financing of regulatory expenses. These collections are classified as user charges, and they include the sale of postage stamps and electricity, charges for admittance to national parks, premiums for deposit insurance, and proceeds from the sale of assets such as rents and royalties for the right to extract oil from the Outer Continental Shelf.²⁸

In the federal budget, user fees are not counted as revenue, and the government services financed by user fees are not included in the count of government expenditures. As the Office of Management and Budget states:

[User charges] are subtracted from gross outlays rather than added to taxes on the receipts side of the budget. The purpose of this treatment is to produce budget totals for receipts, outlays, and budget authority in terms of the amount of resources allocated governmentally, through collective political choice, rather than through the market.²⁹

24. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, 2004 National Nursing Home Survey (NNHS), public use files, and U.S. Census Bureau, 2000 Census Summary File (SF 1), PCT16, PCT17–PCT171.

25. In the average month in 2004, about 1.49 million individuals resided in nursing homes; another estimated 155,000 individuals resided in long-term care institutions other than nursing homes. Data on nursing home residents come from Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, 2004 National Nursing Home Survey (NNHS), public use files. Data on individuals in other types of long-term care institutions come from the Bureau of Labor Statistics.

26. Because individuals in long-term care facilities are not counted in the CPS, they are not included in the expenditure and revenue allocation estimation of this analysis, except for Medicaid expenditures on institutional long-term care. However, they are included in the total number of U.S. households and the total number of low-skill households. To the extent that individuals without a high school degree represent a disproportionate share of the population in institutional long-term care and receive a number of government benefits and services, this analysis provides an underestimation of both actual aggregate and average expenditures received by low-skill households in the U.S.

27. See www.census.gov/govst/estimate/0400usd_1.html.

28. Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*, p. 301.

29. *Ibid.*

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In contrast, Census tabulations of state and local government finances include user fees as revenue and also include the cost of the service provided for the fee as an expenditure.³⁰ The most prominent user fees treated in this manner in the Census state and local government financial data are household payments to public utilities for water, power, and sanitation services.

But market-like, user fee payments of this type do not involve a transfer of resources from one group to another or from one household to another. In addition, government user fee transactions do not alter the net fiscal deficit or surplus of any household (defined as the cost of total government benefits and services received minus total taxes and revenues paid) because each dollar in services received will be matched by one dollar of fees paid. Finally, determining who has paid a user fee and received the corresponding service is very difficult.

For these reasons, this paper has applied the federal accounting principle of excluding most user fees from revenue tallies and excluding the services funded by the fees from the count of expenditures to state and local government finances. This means that user charges and fees were removed from both the revenue and expenditure tallies for state and local government. As noted, the inclusion or exclusion of these user fees has no effect on the fiscal deficit figures for low-skill households presented in this paper.

Appendix Tables A-2A, A-2B, and A-2C show the deductions of federal grant in aid and user fee expenditures that yielded the state and local expenditure totals used in this analysis.

Estimating the Allocation of Direct and Means-Tested Benefits. In most cases, the dollar cost of direct benefits and means-tested benefits received by low-skill households was estimated by the dollar cost of benefits received as reported in the Census Bureau's Current Population Survey (CPS). One problem with this approach is that the CPS underreports receipt of most government benefits. This means that the aggregate dollar cost of benefits for a particular program as reported in the CPS is generally less than the actual program expenditures according to government budgetary data.

To be accurate, any fiscal analysis must adjust for benefit underreporting. This has been done in prior studies; for example, the National Academy of Sciences study of the fiscal costs of immigration, *The New Americans*, made an adjustment for such underreporting.³¹

The current analysis adjusts for underreporting in the CPS with a simple mathematical procedure that increases overall spending on any given program to equal actual aggregate spending levels and increases expenditures on low-skill households in an equal proportion. Let:

E_{ix} = total expenditures for program x reported in the CPS;

E_{lx} = expenditures for program x for low-skill households reported in the CPS;

E_{bx} = total expenditures for program x according to independent budgetary sources; and

H_l = number of low-skill households in the CPS.

The share of expenditures reported in the CPS received by low-skill households would equal E_{lx}/E_{ix} . The actual expenditures allocated to low-skill households would be estimated to equal (E_{lx}/E_{ix}) times E_{bx} .

The average per household benefit from the program received by low-skill households would equal:

$$(E_{lx}/E_{ix}) \text{ times } (E_{bx}/H_l)$$

For example, if the CPS reported that low-skill households received 50 percent of food stamp benefits and the total expenditures on food stamps according to budgetary data were \$10 billion, then low-skill households would be estimated to receive \$5 billion in food stamp benefits. If there were 20 million low-skill households, then the average food stamp benefit per low-skill household would equal \$5 billion divided by 20 million households, or \$250.

30. U.S. Census Bureau, *Federal State and Local Governments: 1992 Government Finance and Employment Classification Manual*, sections 3.31 and 7.24.

31. National Research Council, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Washington, D.C.: National Academy Press, 1997), p. 308.

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The key assumption behind this underreporting adjustment procedure is that low-skill households underreport receipt of welfare and other government benefits at roughly the same rate as the general population. For example, if receipt of food stamps is underreported by 15 percent in the CPS for the overall population, the adjustment procedure assumes that the sub-group of low-skill households in the CPS would also underreport food stamp receipt by 15 percent. The average level of food stamp benefits among low-skill households as reported in the CPS is then adjusted upward by this ratio to compensate for the underreporting.³² Since there is no evidence to suggest that low-skill households underreport government benefits to the Census at a rate different from that of the general population, this procedure appears valid as an estimating technique.

Estimating the Allocation of Education Expenditures. The average cost of public education services was calculated in a somewhat different manner since the CPS reports whether an individual is enrolled in a public school but does not report the cost of education services provided. Consequently, data from the Census survey of governments were used to calculate the average per pupil cost of public primary and secondary education in each state.³³ The total governmental cost of primary and secondary schooling for each household was then estimated by multiplying the number of enrolled pupils in the household by the average per pupil cost in the state where the household resides.

This procedure yielded estimates of total public primary and secondary education costs for low-skill households in the CPS and for the whole population in the CPS. Adjustments for misreporting in the CPS were made according to the procedures outlined above. (This process is described more fully below.) Public costs for post-secondary education were allocated in a similar manner.

Estimating the Allocation of Medical Expenditures. There is often confusion concerning the calculation of the cost of Medicaid and Medicare benefits by the Census. The Census makes no effort to determine the costs of medical treatments given to a particular person. Instead, it calculates the average cost of Medicaid or Medicare benefits per person for a particular demographic/beneficiary group. For example, per capita Medicaid costs for children are very different from those for the elderly. The Census assigns the appropriate per capita Medicaid or Medicare costs to each individual who reports coverage in the CPS, according to the individual's beneficiary class: for example, elderly, children, non-elderly able-bodied adults, and disabled adults.

The present analysis uses the per capita Medicaid and Medicare costs provided by the CPS and then adjusts for underreporting according to the procedures described above. (For more details, see the specific discussion of Medicare and Medicaid below.)

Medicaid expenditures on persons in institutional long-term care facilities require separate calculations. In the average month in 2004, some 1.65 million persons resided in long-term care facilities;³⁴ about 62 percent of these individuals received Medicaid assistance.³⁵

Individuals in long-term care facilities are not included in the population reported in the CPS. In FY 2004, some \$76 billion in Medicaid funds was spent on individuals in nursing homes and other institutional long-term care facilities,³⁶ of which nearly 60 percent was spent on Medicaid recipients without a high school diploma.³⁷

Estimating the Allocation of Population-Based Services. Wherever possible, this analysis has allocated the cost of population-based services for low-skill households in proportion to their estimated utilization of those ser-

32. If CPS underreports benefits by 15 percent, then the underreporting would be corrected by multiplying the CPS total by the inverse of 100 percent minus 15 percent (the inverse of 85 percent).

33. U.S. Census Bureau, Governments Division, *Public Education Finances, 2004*, issued March 2006. Costs included both current expenditures and capital outlays.

34. In the average month in 2004, about 1.49 million individuals resided in nursing homes; another estimated 175,000 individuals resided in long-term care institutions other than nursing homes.

35. The 62 percent statistic comes from the 2004 National Nursing Home Survey (NNHS). This analysis assumes that the share of Medicaid recipients in other types of long-term care institutions is equal to the share of Medicaid recipients in nursing homes.

36. Estimates based on FY 2003 MSTS expenditure data, as published in *Medicare & Medicaid Statistical Supplement, 2006*, and adjusted to equal actual FY 2004 expenditure levels as reported by the CRS. The spending figure includes a 16 percent increase for ancillary medical services.

37. Estimate comes from the 1999 National Long Term Care Survey.

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vices. For example, the proportionate utilization of roads and highways by low-skill households was estimated, in part, on the basis of their share of gasoline purchases as reported in the Consumer Expenditure Survey (CEX).

When an estimate of proportionate utilization was not possible, the cost of population-based services was allocated on a uniform per capita basis. Some population-based services, such as airports, will be used infrequently by low-skill households; in these cases, the cost of the service for low-skill households was set at zero or at an arbitrary low level.

Estimating the Allocation of the Costs of General Government and Administrative Support Services. Allocation of the costs of general government services such as tax collections and legislative functions presents difficulties since there is apparently no one who directly benefits from those services. Most taxpayers would regard IRS collection activities as a burden, not a benefit; however, while government administrative functions *per se* do not benefit the public, they do provide a necessary foundation that makes all other government benefit and service programs possible. A household that receives food stamp benefits, for example, could not receive those benefits unless the IRS had collected the tax revenue to fund the program in the first place.

It seems reasonable to integrate proportionally the cost of government support services into the cost of other government functions that depend on those services. Following this reasoning, the expenditures for general government and administrative support have been allocated among households in the same proportions that total direct benefits, means-tested benefits, education, and population-based services are distributed among households.³⁸

Estimating the Allocation of Financial Obligations Relating to Past Government Activities. Year by year, throughout most of the post-war period, U.S. taxpayers have not paid for the full cost of benefits and services provided by government. A portion of annual costs is passed on to be paid in future years.

Government costs are shifted to future years through two mechanisms. First, when government expenditure exceeds revenue, the government runs a deficit and borrows funds. The cost of borrowing is passed to future years in the form of interest payments and repayments of principal on public debts. Second, when a government employee provides a service to the public, part of the cost of that service is paid for immediately through the employee's salary, but the employee may also receive government retirement benefits in the future in compensation for services provided in the present. Expenditures on public-sector retirement systems are thus, to a considerable degree, present payments in compensation for services delivered in the past.

The mechanism for allocating these costs for past service among the present-day population is uncertain. In this paper, the following procedure was used.

First, veterans benefits were regarded as compensation for pure public goods and were allocated as such.

Second, the share of debt payments associated with past public good expenditure was considered a pure public good itself and allocated as such.

Third, the remaining interest and government retirement payments were allocated in proportion to the share of all direct benefits, means-tested benefits, education, and population services received by a group in FY 2004. Thus, the share of interest payments on government debt and government employee retirement costs allocated to low-skill households was proportionate to those households' share of direct and means-tested benefit spending, education, and spending on population-based services in FY 2004.

There are two rationales for this allocation. First, the government's honoring of past financial obligations is a necessary precondition for current government operations. For example, if government violated its obligations and refused to pay retirement benefits owed to past employees, it would find it difficult to hire current employees, at least at their present wage rates. Similarly, if the government failed to pay interest on its existing debt, it would find it very difficult to borrow money in the future; unable to borrow, the government would be forced to slash benefits or sharply raise taxes. Thus, payment of past government financial obligations is a necessary element of current government operations; it is an integral part of the "cost of production" of current government benefits and services.

38. Approximately 27 percent of total federal expenditure is devoted to pure public good functions; thus, 27 percent of federal support service expenditure was assumed to assist public good functions.

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As in the case of tax collections, the public does not benefit directly from the payment of past governmental financial obligations, but the payment of those past obligations makes the provision of current benefits and services possible. Payment of past obligations is an important governmental secondary function that makes primary functions possible.

It seems reasonable, therefore, to integrate the cost of servicing past financial obligations into the costs of current government operations and to allocate the benefits of debt service expenditures in proportion to the distribution of present benefit and services.³⁹ That procedure has been used in this analysis.

A second perspective on this issue can be obtained by considering the multi-year costs of high school dropout households rather than just the single-year costs. As noted, in most years in the post-war period, government has failed to pay fully for its activities, passing part of the cost on to future years. A significant portion of current government debt represents benefits for low-skill households that were financed by deficit spending in prior years. In a multi-year perspective, the true fiscal cost of low-skill households includes not merely the fiscal deficit (benefits minus taxes) for the current year, but the fiscal deficit of low-skill households from prior years that has been shifted forward to the present by government borrowing.

Consequently, the true cost of low-skill households for the taxpayers would include the portion of government debt obligations that can be attributed to past benefits for low-skill households. To calculate this, it would be necessary to calculate the share of government debt that can be attributed to past benefits and services for low-skill households, a number that would be roughly comparable to the share of total government spending allocated on behalf of low-skill households in prior years.

Calculating such a figure would be a daunting task; however, review of government spending over the past three decades suggests that the share of spending devoted to low-skill households has probably not changed dramatically over that time. Consequently, the share of government spending on direct benefits, means-tested benefits, education, and population-based services to support low-skill households in FY 2004 (19 percent) can serve as a very rough proxy for the share of spending on such households in recent decades. Thus, the share of interest on the government debt that can be attributed to past expenditures on low-skill households is probably roughly proportionate to the share of current spending devoted to those households.

Estimating the Distribution of Pure Public Goods. Government pure public goods include expenditures on defense, veterans, international affairs, scientific research, and part of spending on the environment, as well as debt obligations relating to past public good spending. The total cost of pure public goods was divided by the whole U.S. population to determine an average per capita cost.

The share of benefits going to low-skill households was estimated based on their share of the population; the average value came out at roughly \$6,000 per low-skill household. (This procedure assumes that low-skill households receive the same per capita utility from pure public good spending as does the general population.) Thus, it might be reasonable to say that each low-skill household benefits from some \$6,000 in public goods spending each year that it does not pay for, but it would be inaccurate to assume that the benefit received by low-skill households imposes added costs on society. For a further discussion, see Appendix B.

Estimating the Distribution of Taxes and Other Government Collections. The distribution of federal and state income taxes was calculated from CPS data. The Census imputes tax payments into the CPS based on a household's income and demographic characteristics and the appropriate federal and state tax rules; however, since income is underreported in the CPS, this means that imputed taxes will also be too low. Thus, the imputed tax payments in the CPS were adjusted to equal the aggregate income tax revenues reported in government budgetary documents. Federal revenue totals were taken from *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2006*.⁴⁰ State and local tax and revenue data were taken from the U.S. Census survey of governments.⁴¹

39. Financial obligations also include government employee retirement costs.

40. Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*, pp. 299–323.

41. See www.census.gov/govs/estimate/0400usd_1.html.

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The procedures for adjusting for the underreporting of income taxes were the same as those used to adjust for underreporting of expenditures. For example, for federal income tax, let:

T_t = total income tax reported in the CPS;

T_l = total income tax for low-skill households reported in the CPS;

T_b = total income tax according to independent budgetary sources; and

H_l = number of low-skill households in the CPS.

The share of taxes paid by low-skill households as reported in the CPS would equal T_l/T_t . The actual taxes allocated to low-skill households would be estimated to equal (T_l/T_t) times T_b .

The average tax paid per low-skill household would equal:

$$(T_l/T_t) \text{ times } (T_b/H_l)$$

State income taxes were adjusted for underreporting according to the same formula.

Employees were assumed to pay both the "employee" and "employer" share of FICA taxes. Allocation of FICA taxes was estimated based on the distribution reported in the CPS, adjusted for underreporting in the manner described above.

The incidence of federal and state corporate profits tax was assumed to fall 70 percent on workers and 30 percent on owners of capital.⁴² The workers' share was allocated according to the distribution of earnings in the CPS, the owners' share according to the allocation of property income in the CPS.

Sales and excise taxes were assumed to fall on the consumer; tax payments were estimated based on the share of total consumption of relevant commodity or commodities in the Consumer Expenditure Survey. For example, since the CEX reported that households headed by persons without a high school degree consumed 18.2 percent of the sales of tobacco products, these same households were estimated to pay a corresponding 18.2 percent of all excise and sales taxes on tobacco products. Additional information on specific taxes is provided below.

Specific Calculations on Expenditures

The average cost of government benefits and services per low-skill household was calculated for 50 separate expenditure categories. The algorithms employed for each category are described below, and the specific calculations are shown in Appendix Table A-4.

Calculations for Specific Direct Benefit Expenditures.

- **Social Security Benefits.** Social Security benefits for individual households were calculated using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **Medicare.** The value of Medicare benefits per household was calculated based on data in the CPS. The CPS calculates the value of Medicare coverage for an individual as equal to the average cost per eligible beneficiary. Adjustments for misreporting of benefits in the CPS were made using the procedures described above.⁴³
- **Unemployment Insurance Benefits.** Unemployment insurance benefits for individual households were calculated using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **Workmen's Compensation.** Workmen's compensation benefits for individual households were calculated using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.

42. William C. Randolph, "International Burdens of the Corporate Income Tax," Congressional Budget Office *Working Paper* No. 2006-09, 2006.

43. In the case of Medicare, the CPS actually slightly overreports the total cost of benefits; therefore, in this case, the adjustment procedure results in a small reduction in Medicare costs per household compared to the CPS data.

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- **Other Federal Retirement Programs.** This category includes Railroad Retirement and the Black Lung Disability Trust Fund. Benefits for individual households were calculated using dollar values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **Agricultural Subsidy Programs.** Low-skill households were assumed to receive zero benefit from these programs.
- **Deposit Insurance.** Net expenditure for this category is very low; low-skill households were assumed to receive zero benefit.

Calculations for Public Education.

- **Public Primary and Secondary Education.** The average cost of public education services was calculated in a somewhat different manner since the CPS reports whether an individual is enrolled in a public school but does not report the cost of education services provided. Data from the October 2004 CPS were used to determine enrollment in public schools, while data from the Census survey of governments were used to calculate the average per pupil cost of public primary and secondary education in each state.⁴⁴ The total governmental cost of primary and secondary schooling for each household was then estimated by multiplying the number of enrolled pupils in the household by the average per pupil cost in the state where the household resides.

This procedure provided an estimate of total public primary and secondary education costs for the whole population and the percentage of total costs going to low-skill households. The percentage of costs going to low-skill households was multiplied by the expenditure total for primary and secondary education from independent budgetary sources; this yielded an estimate of aggregate primary and secondary public school expenditures for low-skill households. Average per household costs of public primary and secondary education were calculated by dividing the total costs of low-skill households by the overall number of such households.

- **Public Post-Secondary Education.** Public costs for post-secondary education were allocated using the same procedures used for primary and secondary expenditures.
- **Other Education.** These state and local costs were allocated in proportion to the low-skill households' share of the general population.

Calculations for Specific Means-Tested Benefit Expenditures.

Means-Tested Expenditures in General. Aggregate figures on federal means-tested expenditures were taken from Office of Management and Budget totals in *Historical Tables, Budget of the United States Government, Fiscal Year 2006*. (See Appendix Table A-1.) Federal expenditures on individual means-tested programs are presented in Appendix Table A-4 and were taken from the Congressional Research Service report, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002–FY2004*.

Figures on specific state and local means-tested expenditures are presented in Appendix Tables A-2A, A-2B, A-2C, and A-4 and were taken from the CRS report. These figures exclude state means-tested expenditures financed by federal grants. An estimated \$2.5 billion in state-run General Relief programs was included in the "public assistance" category in Appendix Table A-4; these expenditures do not appear in the CRS report because they lack a federal component.

The total means-tested expenditure figure of \$550.9 billion, presented in Appendix Table A-3, excludes means-tested veterans benefits (which are counted as public good spending) and most means-tested educational spending.⁴⁵

Medicaid Expenditures in General. The Medicaid Statistical Information System (MSIS)⁴⁶ reports Medicaid expenditures for four recipient groups: children; disabled, non-elderly adults; able-bodied, non-elderly adults;

44. Data from U.S. Census Bureau, Governments Division, *Public Education Finances, 2004*, issued March 2006.

45. The means-tested spending total does include Head Start.

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and elderly adults. The MSIS data further divide expenditures in each of the four recipient categories into expenditures for recipients in the general population and expenditures for recipients in long-term care institutions, which include nursing facilities (NF) and intermediate care facilities for the mentally handicapped (ICF-MR). This yields eight overall Medicaid recipient categories; separate expenditure calculations were made for each of these eight categories.

- **Elderly Medicaid Recipients in Long-Term Care Institutions.** Medicaid expenditures for elderly persons without a high school diploma in long-term care institutions were estimated according to four steps.

First, institutional long-term care expenditures on recipients of unknown recipient status were imputed into the four known recipient categories of persons in institutions on a pro rata basis.

Second, institutional long-term care expenditures (nursing facility plus ICF-MR spending) as reported in the MSIS are facility expenditures and do not reflect Medicaid spending on ancillary medical services (such as inpatient hospital, physician, and prescription drugs services) used by institutional long-term care recipients. On average, ancillary medical spending is estimated to be about 16 percent of facility expenditures across the four recipient groups.⁴⁷ To calculate the adjusted institutional long-term care expenditures that would include both facility and ancillary spending, MSIS-based nursing facility and ICF-MR expenditures are multiplied by a factor of 1.16.

Third, total Medicaid expenditures reported in the MSIS fall short of total expenditures reported by the Congressional Research Service.⁴⁸ To compensate for this shortfall, the expenditure total calculated in stage 2 was multiplied by the ratio of CRS total Medicaid expenditures divided by MSIS total expenditures; this yielded an adjusted institutional long-term care expenditure total (ALCET) for elderly persons in long-term care.

Fourth, the National Long Term Care study showed that some 59 percent of elderly Medicaid recipients in nursing facilities lacked a high school diploma.⁴⁹ In addition, all elderly persons in ICF-MR were assumed to lack a high school diploma. Based on their share of Medicaid recipients in long-term care institutions, elderly persons without a high school diploma were assumed overall to receive 59.9 percent of the adjusted long-term care expenditure total (ALCET) for all elderly persons in institutional long-term care.

- **Non-elderly Medicaid Recipients in Long-Term Care.** Medicaid expenditures for non-elderly persons without a high school diploma were estimated according to four steps similar to those used for the elderly.

First, institutional long-term care expenditures on recipients of unknown recipient status were imputed into the four known-eligibility recipient categories on a pro rata basis.

Second, institutional long-term care expenditures (nursing facility plus ICF-MR spending) as reported in the MSIS are facility expenditures and do not reflect Medicaid spending on ancillary medical services (such as inpatient hospital, physician, and prescription drugs services) used by institutional long-term

46. Calculations in this appendix are based on FY 2003 MSIS data, U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, *Medicare & Medicaid Statistical Supplement, 2006*, Medicaid Tables 14.1–14.27, at www.cms.hhs.gov/MedicareMedicaidStatSuppl/1/ItemDetail.aspx?filterType=none&filterByDID=996&sortByDID=1&sortOrder=ascending&termID=MS1190631&imNumPerPage=10 (February 20, 2007).

47. The 16 percent figure was taken from Anna Sommers *et al.*, “Medicaid’s Long-Term Care Beneficiaries: An Analysis of Spending Patterns,” Kaiser Commission on Medicaid and the Uninsured, 2006, Table 2. The study used MSIS 2002 data.

48. MSIS expenditures fall short of actual Medicaid expenditures because of its accounting system and because the MSIS does not include disproportionate provider payments, some supplemental payments, and administrative costs. In addition, Medicaid expenditure calculations for the different recipient groups are based on published FY 2003 data. Assuming that each recipient group’s share of spending did not vary from 2003 to 2004, FY 2003 expenditure figures were also adjusted to equal actual FY 2004 spending levels as reported by the CRS. Step 3 in this estimation process accounted for both adjustments at once.

49. National Long Term Care Study (NLTCS), 1999 public use dataset. Produced and distributed by the Duke University Center for Demographic Studies with funding from the National Institute on Aging under Grant No. U01-AG007198. The NLTCS is a nationally representative sample of individuals ages 65 years and older in long-term care facilities.

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care recipients. On average, ancillary medical spending is estimated to be about 16 percent of facility expenditures across the four recipient groups.⁵⁰ To calculate the adjusted institutional long-term care expenditures that would include both facility and ancillary spending, MSIS-based nursing facility and ICF-MR expenditures were multiplied by a factor of 1.16.

Third, total Medicaid expenditures reported in the MSIS fall short of total expenditures reported by the Congressional Research Service. To compensate for this, the expenditure total calculated in stage 2 was multiplied by the ratio of CRS total Medicaid expenditures divided by MSIS total expenditures; this yielded an adjusted institutional long-term care expenditure total (ALCET) for non-elderly persons in long-term care.

Fourth, the share of adjusted institutional long-term care expenditure for non-elderly persons that went to persons without a high school diploma was then estimated. Of the total adjusted Medicaid expenditures for non-elderly recipients in institutional long-term care, 52.3 percent was spent on individuals residing in intermediate care facilities for the mentally handicapped (ICF-MR); all beneficiaries in these facilities were assumed to be without a high school diploma.⁵¹ Some 6.8 percent of expenditures went to non-elderly persons who lacked a high school diploma and who resided in nursing facilities.⁵² Altogether, 59.1 percent of Medicaid expenditures on non-elderly persons in institutional long-term care went to persons who lacked a high school diploma.

- **Medicaid Expenditures on Elderly Persons in the General Population.** Medicaid expenditures for elderly persons residing in low-skill households were calculated as follows.

First, total Medicaid expenditures reported in the MSIS fall short of total expenditures reported by the Congressional Research Service. To compensate for this, Medicaid expenditures for elderly persons as reported in the MSIS were multiplied by the ratio of CRS total Medicaid expenditures divided by MSIS total expenditures.

Second, the adjusted long-term care expenditure total (ALCET) for elderly persons in long-term care institutions was subtracted from the product calculated in stage 1. The remainder equaled expenditures on the non-institutional elderly.

Third, the percent of Medicaid expenditures on the non-institutional elderly going to persons in low-skill households was calculated from CPS data; this percentage was applied to the remainder in stage 2 to yield Medicaid expenditures for the non-institutional elderly going to low-skill households.

The formula for Medicaid expenditures for elderly persons in low-skill households in the general population would be as follows. Let:

M_{gt} = Medicaid expenditures for elderly persons residing in low-skill households in the general population;

M_{et} = Total Medicaid expenditures on the elderly according to MSIS data;

M_{it} = Medicaid expenditures on the elderly in long-term care institutions;

$MSIS_t$ = Total Medicaid expenditure according to MSIS data;

CRS_t = Total Medicaid expenditure according to Congressional Research Service data; and

CPS_c = Share of Medicaid expenditures for elderly persons in the CPS going to elderly persons residing in low-skill households.

50. The 16 percent figure came from Anna Sommers *et al.*, "Medicaid's Long-Term Care Beneficiaries: An Analysis of Spending Patterns," Kaiser Commission on Medicaid and the Uninsured, 2006, Table 2. The Kaiser study used MSIS 2002 data.

51. For more information on ICF-MR facilities, see www.cms.hhs.gov/CertificationandCompliance/09_ICFMRs.asp (March 7, 2007).

52. To derive this figure, the percent of non-elderly adult recipients without a high school education in long-term care nursing facilities was assumed to equal that of the general U.S. population: about 14 percent in 2004. U.S. Census Bureau, Current Population Survey, Educational Attainment in the United States: 2004, Table 1, at www.census.gov/population/socdemo/education/cps2004/t1ab01-01.xls (March 2, 2007).

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Medicaid expenditures for elderly persons residing in low-skill households in the general population can then be calculated as:

$$M_{el} = (M_{et} - M_{es}) \text{ times } CRS_t/MSIS_t \text{ times } CPS_e$$

- **Medicaid Expenditures on Children in the General Population.** Medicaid expenditures for children residing in low-skill households were calculated with the same three-step procedure used for elderly persons in the general population.

First, total Medicaid expenditures reported in the MSIS fall short of total expenditures reported by the Congressional Research Service. To compensate for this, Medicaid expenditures for children as reported in the MSIS were multiplied by the ratio of CRS total Medicaid expenditures divided by MSIS total expenditures.

Second, the adjusted long-term care expenditure total (ALCET) for children in long-term care institutions was subtracted from the product calculated in stage 1. The remainder equaled Medicaid expenditures on non-institutionalized children.

Third, the percent of Medicaid expenditures on non-institutionalized children going to children in low-skill households was calculated from CPS data; this percentage was applied to the remainder in stage 2 to yield Medicaid expenditures for the non-institutional children residing in low-skill households.

- **Medicaid Expenditures on Able-bodied Adults in the General Population.** Medicaid expenditures for able-bodied adults residing in low-skill households were calculated with the same three-step procedure used for elderly persons in the general population.

First, total Medicaid expenditures reported in the MSIS fall short of total expenditures reported by the Congressional Research Service. To compensate for this, Medicaid expenditures for able-bodied adults in the general population as reported in the MSIS were multiplied by the ratio of CRS total Medicaid expenditures divided by MSIS total expenditures.

Second, the adjusted long-term care expenditure total (ALCET) for able-bodied adults in long-term care institutions was subtracted from the product calculated in stage 1. The remainder equaled Medicaid expenditures on non-institutionalized able-bodied adults.

Third, the percent of Medicaid expenditures on non-institutionalized able-bodied adults going to able-bodied adults in low-skill households was calculated from CPS data; this percentage was applied to the remainder in stage 2 to yield Medicaid expenditures for the non-institutionalized able-bodied adults residing in low-skill households.

- **Medicaid Expenditures on Disabled Adults in the General Population.** Medicaid expenditures for disabled adults residing in low-skill households were calculated with the same three-step procedure used for elderly persons in the general population.

First, total Medicaid expenditures reported in the MSIS fall short of total expenditures reported by the Congressional Research Service. To compensate for this, Medicaid expenditures for disabled adults in the general population as reported in the MSIS were multiplied by the ratio of CRS total Medicaid expenditures divided by MSIS total expenditures.

Second, the adjusted long-term care expenditure total (ALCET) for disabled adults in long-term care institutions was subtracted from the product calculated in stage 1. The remainder equaled Medicaid expenditures on non-institutionalized disabled adults.

Third, the percent of Medicaid expenditures on non-institutionalized disabled adults going to disabled adults in low-skill households was calculated from CPS data; this percentage was applied to the remainder in stage 2 to yield Medicaid expenditures for the non-institutionalized disabled adults residing in low-skill households.

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- **Food Stamps.** The Food Stamp Program is a means-tested program. Benefits for individual households were calculated using dollar benefit values reported in the CPS. Adjustments for underreporting of food stamp benefits in the CPS were made using the procedures described above.
- **Supplemental Security Income (SSI).** SSI is a means-tested program. SSI benefits for individual households were calculated using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **The Earned Income Tax Credit (EITC).** The EITC is a means-tested program supporting low-income working families with children. Dollar values of EITC benefits are calculated by the Census for each eligible household and imputed into the CPS data files. For the present analysis, EITC benefits for individual households were based on the dollar benefit values reported in the CPS. Adjustments for underreporting of EITC benefits in the CPS were made using the procedures described above.
- **Public Housing Subsidies.** There are a number of federal means-tested housing benefit programs. Public housing benefits for individual households were determined using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **Public Assistance.** Public assistance covers cash benefits from the Temporary Assistance to Needy Families (TANF) program and General Relief programs.⁵³ Public assistance benefits were determined for individual households using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **Energy Assistance.** Energy assistance is a means-tested benefit program. Benefits for individual households were determined using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **Women, Infants and Children (WIC) Nutrition Program.** WIC is a means-tested program subsidizing food consumption for low-income pregnant women and low-income mothers with infants and small children. The CPS reports receipt of WIC benefits by households but gives no dollar value. The share of total WIC spending going to low-skill households was assumed to equal the share of WIC recipients in the CPS in low-skill households.
- **Day Care Assistance.** Federal, state, and local governments provide day care assistance to low-income parents through a variety of means-tested programs. The CPS reports receipt of day care assistance by households but gives no dollar value. The share of total day care spending going to low-skill households was assumed to equal the share of day care recipients in the CPS in low-skill households.
- **Indian Health Services.** Indian Health is a means-tested aid program. The CPS reports receipt of Indian Health benefits by households but gives no dollar value. The share of total Indian Health spending going to low-skill households was assumed to equal the share of Indian Health recipients in the CPS in low-skill households.
- **Training.** The CPS reports whether an individual participates in government job training programs but assigns no cost to this participation. The share of total means-tested training spending going to low-skill households was assumed to equal the share of training-participant recipients in the CPS who lived in low-skill households.
- **Other Means-Tested Aid.** Altogether, the federal government operates some 70 different means-tested aid programs. The CPS contains data on household utilization of 11 of the largest programs, which cover 93 percent of overall means-tested spending, but provides no data on the smaller programs. Allocation of benefits from the remaining means-tested programs was estimated in the following manner.

53. The state and local expenditures on public assistance presented in Appendix Table A-4 include data and state TANF spending taken from the Congressional Research Service and an estimated \$2.3 billion in state and local spending on General Relief.

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First, the share of reported total spending for the 11 means-tested programs covered by the CPS going to households headed by persons without a high school degree was determined.

Second, the low-skill households were assumed to receive a share of the means-tested benefits from the remaining unreported programs equal to their share of all expenditures on reported means-tested programs in the CPS.

Third, once the estimated total benefits from these residual programs received by low-skill households as a whole was calculated, an average value per low-skill household could be computed.

Specific Calculations for Population-Based Programs.

- **Highways and Roads.** Utilization of roads, highways, and parking facilities by low-skill households was assumed to be proportionate to their share of gasoline expenditures in the CEX.
- **Mass Transit Subsidies.** Low-skill households were assumed to utilize mass transit in proportion to their share of expenditures on public transportation as reported in the CEX.
- **Air Transportation.** Low-skill households were assumed to receive minimal benefit from government spending on airports and air travel. The low-skill household share of this spending was arbitrarily set at 2 percent of total expenditures.
- **Sea and Inland Port Facilities and Other Ground Transportation.** The share of these expenditures benefiting low-skill households was assumed to equal their share of total consumption in the CEX.
- **Other Federal Ground Transportation.** Low-skill households were assumed to receive none of the benefits of this spending.
- **Justice, Police, and Public Safety.** These programs provide a general benefit to entire communities. These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.
- **Population-Based Expenditures on Resources, Sanitation, and the Environment.** This category covers spending on parks and recreation, sewage and waste management, pollution control, natural resources, and public utility expenditures that are not financed through user fees. These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.
- **Public Utility Spending for Water Supply.** These expenditures represent expenditures on public water supply beyond those financed through user fees. The low-skill households' share of this spending was assumed to equal the group's share of expenditures on water in the CEX.
- **Public Utility Spending for Electric Power Supply.** These expenditures represent expenditures on public electric power beyond those financed through user fees. The low-skill households' share of this spending was assumed to equal the group's share of expenditures on electricity in the CEX.
- **Public Utility Spending for Gas Supply.** These expenditures represent expenditures on public gas supply beyond those financed with user fees. The low-skill households' share of this spending was assumed to equal the group's share of expenditures on gas supply in the CEX.
- **Pollution Control and Abatement.** The analysis assumes that expenditures on pollution control would be proportionate to a household's propensity to pollute and that a household's propensity to pollute would be proportionate to its share of overall consumption. In consequence, low-skill households' share of pollution control expenditure would be proportionate to the group's share of total consumption in the CEX.
- **General Health.** This category includes spending on mental health, substance abuse, and public health. These expenditures were assumed to have a uniform per capita value across the entire popu-

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lation. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.

- **Consumer and Occupational Health.** These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.
- **Protective Inspection and Regulation.** These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.
- **Community Development.** These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.
- **Miscellaneous Spending.** This category includes labor services, activities to advance commerce, postal service, and libraries. These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.

Specific Calculations for General Government Support Services for Other Government Programs.

- **General Government/Administrative Support Functions at the State and Local Levels.** This category consists mainly of administrative services in support of other government functions. It includes tax and revenue collection, lottery administration, budgeting, central administration, legislative functions, trust fund administration, central administration, and legislative functions. These activities do not provide benefits or services to the general public, but rather provide support for other programs that do directly affect the public. For example, tax collection does not directly benefit anyone but is necessary to provide funding for all other programs that do provide benefits and services to the public. Since the purpose of these support functions is to sustain other government programs, the costs for administrative support services was allocated according to the share of overall state and local direct benefits, means-tested benefits, education, and population-based services received by a household.
- **General Government/Administrative Support Functions at the Federal Level.** Like the previous category, this category includes tax collection activity, legislative functions, and other administrative support activities; and like the previous category, these activities do not directly benefit the public, but rather sustain all other government activities. In FY 2004, some 27 percent of total federal spending was allocated to pure public good functions. Therefore, 27 percent of federal general government and administrative support spending was estimated to be in support of pure public good functions. The remaining spending was allocated among households according to the share of all federally funded direct benefits, means-tested benefits, education, and population-based services received by a household.

Specific Calculations for Financial Obligations Relating to Past Government Activities.

- **Federal Financial Obligations.** This category includes interest payments on the federal debt and expenditures on federal employee retirement. These expenditures do not directly benefit the public, but rather sustain all other government activities. In FY 2004, some 27 percent of total federal spending was allocated to pure public good functions. Therefore, 27 percent of federal financial obligations were estimated to be in support of pure public good functions. The remaining spending was allocated among households according to the share of all direct and means-tested benefits, education, and population-based services received by a household.
- **State and Local Financial Obligations.** This category includes interest payments on the state and local debt and expenditures on state and local employee retirement. These expenditures do not directly benefit the public, but rather sustain all other government activities. Spending was allocated among households according to the share of all direct and means-tested benefits, education, and population-based services received by a household.

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Specific Calculations for Public Goods Expenditure. This category includes spending on national defense, international affairs, science and scientific research, veterans programs, and natural resources and the environment. These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.

- **National Defense.** National defense is a pure public good. Defense expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.
- **Veterans Programs.** Spending on veterans programs represents a cost related to past public goods services. These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.
- **Science and Scientific Research.** These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.
- **International Affairs.** These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.
- **Natural Resources and the Environment.** These expenditures represent an estimate of pure public goods spending on the environment such as preservation of species and wilderness. Parks, recreation, and pollution abatement activities are not included in this category because the cost of those activities will tend to increase as the population increases. The environmental expenditures in this category were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill households was assumed to be equal to their share of the total population.
- **Expenditures on Administrative Support Functions That Assist Governmental Public Good Functions.** Some 27 percent of federal government spending in FY 2004 went to public good functions; therefore, it is assumed that 27 percent of federal administrative support spending also was devoted to backing public goods functions.
- **Financial Obligations for Past Public Good Functions.** This category includes interest payments on the federal debt and federal employee retirement costs. These are obligations that result from federal activities in prior years. The public good share of these obligations would be equal to the public good share of total federal spending in prior years. In FY 2004, some 27 percent of federal spending went to public good functions. The analysis assumes that 27 of federal spending in past years also went to public good functions; therefore, the public good share of spending on past financial obligations is assumed to equal 27 percent of the full costs of past financial obligations.

Specific Calculations for Taxes and Revenues

Average payments per low-skill household were calculated for 33 specific tax and revenue categories. The algorithm used for each revenue category is described below, and the calculations for each category are presented in Appendix Table A-5.

Specific Calculations for Federal Taxes and Revenues.

- **Federal Individual Income Tax.** The distribution of federal income taxes was calculated from CPS data. The Census imputes tax payments into the CPS based on a household's income and demographic characteristics and the appropriate federal income tax rules; however, since income is underreported in the CPS, this means that imputed taxes will also be too low. Thus, the imputed tax payments in the CPS were adjusted so that aggregate tax revenues equaled those reported in *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2006*.⁵⁴ Adjustments for underreporting of tax

54. Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*, pp. 299–323.

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payments in the CPS were made using the procedures used for adjusting benefits for underreporting as described above.

- **Federal Insurance Contribution Act (FICA) Taxes.** Employees were assumed to pay both the “employer” and “employee” share of FICA taxes. Data on the distribution of FICA tax were taken from the CPS. The Census imputes FICA tax values into the CPS based on reported earnings. Adjustment for underreporting was done in the manner previously described.
- **Federal Corporate Income Tax.** There are many conflicting opinions on the incidence of corporate income tax. The tax may be paid by owners, workers, consumers, or a combination of all three. For example, the Congressional Budget Office has traditionally assumed that the burden of this tax was fully borne by the owners of businesses; however, a recent CBO analysis concluded that in a competitive international environment, 70 percent of the cost of this tax was in fact shifted to workers.⁵⁵ As a whole, workers will experience lower wages as a result of the tax.

This study uses the conclusions of this recent CBO analysis, assigning 70 percent of the federal corporate income tax burden to workers and 30 percent to owners; this allocation increases the estimate of the average taxes paid by low-skill households. The distribution of the workers’ share of the tax burden was estimated on the basis of the distribution of earnings reported in the CPS. The share of federal corporate income tax borne by workers in low-skill households was assumed to be proportionate to the share of total earnings reported by low-skill households in the CPS. The distribution of the owners’ share of the tax burden was estimated on the basis of the distribution of property income (dividends, interest, and rent) in the CPS; the share borne by workers in low-skill households was assumed to be proportionate to the share of total property income reported by low-skill households in the CPS.

- **Federal Receipts for Unemployment Insurance.** This tax was assumed to fall on workers. The share paid by low-skill workers was assumed to equal their share of earnings in the CPS.
- **Federal Highway Trust Fund Taxes.** This tax was assumed to fall half on the private owners of motor vehicles and half on businesses. The business share was further assumed to fall half on consumers and half on owners. Overall, the tax was assumed to fall 50 percent on private motor vehicle operators, 25 percent on consumers, and 25 percent of owners of businesses.⁵⁶ The portion of the tax paid by private motor vehicle operators that fell on low-skill households was assumed to equal those households’ share of gasoline consumption as reported in the CEX. The portion of the tax paid by consumers that fell on low-skill households was assumed to be proportionate to those households’ share of total consumption as reported in the CEX. The portion of the tax paid by business owners that fell on low-skill households was assumed to be proportionate to those households’ share of property income (interest, dividends, and rent) as reported in the CPS.
- **Federal Airport and Airways Taxes.** Low-skill households probably use air travel infrequently. They were assumed to pay 2 percent of these taxes and to utilize a corresponding 2 percent of government air travel expenditures.
- **Federal Excise Tax on Alcohol.** This tax was assumed to fall on the consumers of alcohol. The share of the tax borne by low-skill households was assumed to be proportionate to those households’ share of the total consumption of alcohol products as reported in the CEX.
- **Federal Excise Tax on Tobacco.** This tax was assumed to fall on the consumers of tobacco products. The share of the tax borne by low-skill households was assumed to be proportionate to those households’ share of the total consumption of tobacco products as reported in the CEX.
- **Federal Excise Tax on Telephones.** This tax was assumed to fall on telephone users. The share of the tax borne by low-skill households was assumed to be proportionate to those households’ share of the total consumption of telephone products as reported in the CEX.

⁵⁵. Randolph, “International Burdens of the Corporate Income Tax.”

⁵⁶. Based on information provided by the Tax Foundation.

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- **Federal Excise Tax on Transportation Fuels.** This tax was assumed to fall on the consumers of transportation fuels. The share of the tax borne by low-skill households was assumed to be proportionate to those households' share of the total consumption of fuels as reported in the CEX.
- **Other Federal Excise Taxes.** These taxes were assumed to fall on consumers in general. The share of tax borne by low-skill households was assumed to be proportionate to those households' share of the total consumption as reported in the CEX.
- **Federal Gift and Estate Taxes.** Low-skill households were assumed to pay none of these taxes.
- **Federal Customs, Duties, and Fees.** These taxes were assumed to fall on consumers. The share of tax borne by low-skill households was assumed to be proportionate to those households' share of the total consumption as reported in the CEX.

Specific Calculations for State and Local Taxes and Revenues.

- **State Individual Income Tax.** This tax was estimated in the same manner as the federal individual income tax. State income tax data reported in the CPS are calculated using the tax rules of the individual states.
- **State Corporate Income Tax.** This tax was estimated in the same manner as the federal corporate income tax.
- **State and Local Property Taxes.** Property taxes were assumed to fall partly on businesses and partly on owner-occupied and rented dwellings. The tax falling on businesses was assumed to be partly borne by owners and partly passed on to consumers. Overall, 50 percent of the tax was allocated to households as home owners and renters; the share of this tax paid by low-skill households was assumed to be proportionate to these households' share of payments for shelter costs in the CEX. Another 25 percent of property taxes was assumed to be paid by owners of capital; the share paid by low-skill households was assumed to be proportionate to these households' share of dividends, interest, and rent income in the CPS. A final 25 percent of property tax was assumed to be passed on from businesses to consumers; the share of this burden borne by low-skill households was assumed to be equal to their share of total consumption as reported in the CEX.
- **State and Local General Sales Taxes.** These taxes were assumed to fall on consumers. The share that low-skill households paid was assumed to be proportionate to their share of the consumption of non-exempt goods and services as reported in the CEX. Items routinely exempted from sales tax coverage include food eaten at home, housing expenditure, utilities, fuels, gas and motor oil, public services, health care, education, cash contributions, and personal insurance and pension payments.⁵⁷
- **State and Local Tax on Motor Fuel.** This tax was calculated in the same manner as the federal Highway Trust Fund taxes.
- **State and Local Sales Tax on Alcohol.** This tax was estimated in the same manner as the federal excise tax on alcohol.
- **State and Local Sales Tax on Tobacco.** This tax was estimated in the same manner as the federal excise tax on tobacco.
- **Motor Vehicle License Fees.** The share of these fees paid by low-skill households was assumed to equal these households' share of spending on licenses as reported in the CEX.
- **Public Utilities Tax.** The share of this tax paid by low-skill households was assumed to equal these households' share of total utility expenditures as reported in the CEX.
- **Other Selective State and Local Sales Taxes.** The share of these taxes paid by low-skill households was assumed to equal these households' share of total consumption based on CEX data.

⁵⁷. Based on information provided by the Tax Foundation.

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- **Other State and Local Taxes Including Estate, Stock Transaction, and Severance Taxes.** Low-skill households are assumed to pay few of these taxes.
- **State Taxes for Unemployment Insurance.** These taxes, like FICA taxes, were assumed to fall on workers. The share of taxation borne by low-skill households was assumed to equal their share of earnings reported in the CPS.
- **Other Insurance Trust Fund Revenues.** The share of these revenues paid by low-skill households was assumed to be proportionate to the number of persons in low-skill households as a share of the general population.
- **State Taxes for Workmen's Compensation.** These taxes, like FICA taxes, were assumed to fall on workers. The share of taxation borne by low-skill households was assumed to equal their share of earnings reported in the CPS.
- **Employee Contributions to State and Local Government Retirement Funds.** The distribution of these revenue contributions was assumed to be proportionate to the distribution of state and local employees participating in employer pension plans according to CPS data.
- **State Lottery Receipts.** An important source of government revenue paid by low-skill households is the purchase of state lottery tickets. Households headed by persons without a high school degree appear to pay more to state government through lottery ticket sales than they do through individual income taxes. A major study of the sale of state lottery tickets to different socioeconomic groups shows that per capita spending on state lottery tickets by adult high school dropouts was twice that of other adults.⁵⁸ In the present analysis, lottery spending by households headed by persons without a high school degree was assumed to be twice that of other households. The share of state lottery revenue contributed by low-skill households was calculated as $2h_l/(h_l + h_h)$, where h_l is the number of low-skill households and h_h is the number of households in the total population.
- **Earnings on Investments Held in Employee Retirement Trust Funds.** These state and local revenues represent the property income received by government trust funds as owners of capital. These earnings are not taxes and cannot be allocated among households.
- **State and Local Interest Earnings and Earnings from the Sale of Property.** These revenues represent the property income received by government as owner of capital and other property. These earnings are not taxes and cannot be allocated among households.
- **Special Assessments.** Low-skill households were assumed to pay none of these taxes.
- **Other State and Local Revenue.** This revenue includes dividends on investment, recovery of expenditures made in prior years, and other non-tax revenue. Low-skill households were assumed to fund none of this revenue.

58. Charles T. Clotfelter, Philip J. Cook, Julie A. Edell, and Marian Moore, "State Lotteries at the Turn of the Century: Report to the National Gambling Impact Study Commission," Duke University, April 23, 1999.

Appendix B

Pure Public Goods, Private Consumption Goods, and Population-Based Services

Fiscal distribution analysis seeks to determine the government benefits received by a particular group compared to taxes paid. A necessary first step in this process is to distinguish government programs that provide “pure public goods” as opposed to “private goods.” These two types of expenditures have very different fiscal implications.

Economist Paul Samuelson is credited with being the first to develop the theory of public goods. In his seminal 1954 paper “The Pure Theory of Public Expenditure,”⁵⁹ Samuelson defined a pure public good (or what he called in the paper a “collective consumption good”) as a good “which all enjoy in common in the sense that each individual’s consumption of such a good leads to no subtractions from any other individual’s consumption of that good.” By contrast, a “private consumption good” is a good that “can be parceled out among different individuals.” Its use by one person precludes or diminishes its use by another.

A classic example of a pure public good would be a lighthouse: The fact that any particular ship perceives the warning beacon does not diminish the usefulness of the lighthouse to other ships. A typical example of a private consumption good is a hamburger: When one person eats it, it cannot be eaten by others.

Formally, all pure public goods will meet two criteria.⁶⁰

- **Non-rivalrous consumption:** Everyone in a given community can use the good; its use by one person will not diminish its utility to others.
- **Zero-cost extension to additional users:** Once a pure public good has been initially produced, it requires no extra cost for additional individuals to benefit from the good. Expansion of the number of beneficiaries does not reduce its utility to any initial user and does not add new costs of production. As Nobel prize-winning economist James Buchanan explains, with a pure public good, “Additional consumers may be added at zero marginal cost.”⁶¹

The second criterion is a direct corollary of the first. If consumption of a good is truly non-rivalrous, then adding extra new consumers will not reduce utility or add costs for the initial consumers.

The distinction between collective and private consumption goods can be illustrated by considering the difference between a recipe for pie and an actual piece of pie. A recipe for pie is a public consumption good in the sense that it can be shared with others without reducing its usefulness to the original possessor; moreover, the recipe can be disseminated to others with little or no added cost. By contrast, an actual slice of pie is a private consumption good: Its consumption by one person bars its consumption by another. Efforts to expand the number of individuals utilizing the pie slice will either reduce the satisfaction of each user (as each gets a smaller portion of the initial) or entail new costs (to produce more pie).

Examples of Governmental Pure Public Goods. Pure public goods are relatively rare. One prime example of a governmental public good is medical research. If research funded by the National Institutes of Health produces a cure for cancer, all Americans will benefit from this discovery. The benefit received by one person is not reduced by the benefit received by others; moreover, the value of the discovery to each individual would remain the same even if the U.S. population doubled.

Another notable example of a pure public good is defense expenditure. The utility of an Army division or an aircraft carrier lies in its effectiveness in combating foreign threats to America. In most respects, one person’s benefit from defense strength is not reduced because others also benefit. The military effectiveness of an Army division or an aircraft carrier is not reduced just because the size of the civilian population being defended is increased.

59. Paul A. Samuelson, “The Pure Theory of Public Expenditure,” *Review of Economics and Statistics*, Vol. 36, No. 4 (1954), pp. 387–389.

60. A third criterion is non-exclusion from benefit; it is difficult to deny members of a community an automatic benefit from the good. This aspect of public goods is not critical to the fiscal allocation issues addressed in this paper.

61. James M. Buchanan, *The Demand and Supply of Public Goods*, Liberty Fund, Library of Economics and Liberty, p. 3.4.3, at www.econlib.org/library/Buchanan/buchCv5Contents.html (March 6, 2007).

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Finally, individuals may receive psychic satisfaction from the preservation of wildlife or wilderness areas. This psychic satisfaction is not reduced because others receive the same benefit and is not directly effected by changes in the population. By contrast, enjoyment of a national park may be reduced if population increases lead to crowding. In consequence, general activities to preserve species may be considered a public good, while provision of parks is a private good.

Pure Public Goods Compared to Population-Based Goods. Many government services that are dubbed public goods are not true public goods. Economists Thomas MaCurdy and Thomas Nechyba state that “relatively few of the goods produced by [the] government sector are pure public goods, in the sense that the cost of providing the same level of the good is invariant to the size of the population.”⁶² In other words, many government services referred to conventionally as “public goods” need to be increased at added expense to the taxpayer as the population increases, thereby violating the criterion of zero cost extension to additional users.

For example, police protection is often incorrectly referred to as a “public good.” True, police do provide a diffuse service that benefits nearly all members of a community, but the benefit each individual receives from a policeman is reduced by the claims other citizens may make on the policeman’s time. Someone living in a town of 500 protected by a single policeman gets far more protection from that policeman than would another individual protected by the same single policeman in a town of 10,000.

The National Academy of Sciences explains that government services that generally need to be increased as the population increases are not real public goods. It refers to these services as “congestible” goods: If such a program remains fixed in size as the number of users increases, it may become “congested,” and the quality of service will consequently be reduced. An obvious example would be highways. Other examples of “congestible” goods are sewers, parks, fire departments, police, courts, and mail service.⁶³ These types of programs are categorized as “population-based” services in the paper.

In contrast to population-based services, governmental pure public goods have odd fiscal properties. The fact that a low-income person who pays little or nothing in taxes receives benefit from government defense or medical research programs does not impose added cost or reduce the utility of those programs to other taxpayers. Therefore, it is inaccurate to say that the non-taxpayers’ use of these programs imposes a burden on other taxpayers. On the other hand, non-taxpayers or individuals who pay little in taxes are “free riders” on public goods in the sense that they benefit from a good they have not paid for.

62. Thomas MaCurdy, Thomas Nechyba, and Jay Bhattacharya, “An Economic Framework for Assessing the Fiscal Impacts of Immigration,” in James P. Smith and Barry Edmonston, *The Immigration Debate: Studies on the Economic, Demographic and Fiscal Effects of Immigration* (Washington, D.C.: National Academy Press, 1998), p. 16.

63. National Research Council, *The New Americans*, p. 303.

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Table A-1			SR 12
Federal Outlays—Fiscal Year 2004			
Function and Subfunction	Millions of Dollars	Program Type	
050 National Defense:			
051 Department of Defense—Military:			
Military Personnel	113,576	Public Good	
Operation and Maintenance	174,045	Public Good	
Procurement	76,216	Public Good	
Research, Development, Test, and Evaluation	60,759	Public Good	
Military Construction	6,312	Public Good	
Family Housing	3,905	Public Good	
Other	1,708	Public Good	
051 Subtotal, Department of Defense—Military	436,521	Public Good	
053 Atomic Energy Defense Activities	16,625	Public Good	
054 Defense-related Activities	2,762	Public Good	
Total, National Defense	455,908	Public Good	
150 International Affairs:			
151 International Development and Humanitarian Assistance	13,825	Public Good	
152 International Security Assistance	8,369	Public Good	
153 Conduct of Foreign Affairs	7,897	Public Good	
154 Foreign Information and Exchange Activities	1,141	Public Good	
155 International Financial Programs	-4,341	Public Good	
Total, International Affairs	26,891	Public Good	
250 General Science, Space, and Technology:			
251 General Science and Basic Research	8,416	Public Good	
252 Space Flight, Research, and Supporting Activities	14,637	Public Good	
Total, General Science, Space and Technology	23,053	Public Good	
270 Energy:			
271 Energy Supply	-1,555		
272 Energy Conservation	926		
274 Emergency Energy Preparedness	158		
276 Energy Information, Policy, and Regulation	305		
Total, Energy	-166	Population-based Services	
300 Natural Resources and Environment:			
301 Water Resources	5,571	Public Good	
302 Conservation and Land Management	9,758	Public Good	
303 Recreational Resources	2,963	Population-based Services	
304 Pollution Control and Abatement	8,485	Population-based Services	
306 Other Natural Resources	3,948	Public Good	
Total, Natural Resources and Environment	30,725		
350 Agriculture:			
351 Farm Income Stabilization	11,186	Direct Benefit	
352 Agricultural Research and Services	4,254	Public Good	
Total, Agriculture	15,440		
370 Commerce and Housing Credit:			
371 Mortgage Credit	2,659	Direct Benefit	
372 Postal Service	-4,070	Population-based Services	
373 Deposit Insurance	-1,976	Direct Benefit	
376 Other Advancement of Commerce	8,660	Population-based Services	
Total, Commerce and Housing Credit	5,273		

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Table A-1			SA 12
Federal Outlays—Fiscal Year 2004 (continued)			
Function and Subfunction	Millions of Dollars	Program Type	
400 Transportation:			
401 Ground Transportation			
Highways and Roads	32,336	Population-based Services	
Other Ground Transportation	8,407	Population-based Services	
402 Air Transportation	16,743	Population-based Services	
403 Water Transportation	6,898	Population-based Services	
407 Other Transportation	242	Population-based Services	
Total, Transportation	64,626		
450 Community and Regional Development:			
451 Community Development	6,167	Not Applicable	
452 Area and Regional Development	2,329	Not Applicable	
453 Disaster Relief and Insurance	7,301	Not Applicable	
Total, Community and Regional Development	15,797	Duplicates Below	
450 Community and Regional Development: Duplicate Accounts			
Community and Regional Development Proportional	13,754	Population-based Services	
Community and Regional Development: Public Good (Homeland Security)	2,043	Public Good	
Total, Community and Regional Development: Duplicate Accounts	15,797		
500 Education, Training, Employment, and Social Services:			
501 Elementary, Secondary, and Vocational Education	34,357	Educational Benefits	
502 Higher Education	25,264	Educational Benefits	
503 Research and General Education Aids	3,005	Public Good	
504 Training and Employment	7,912	Means-tested	
505 Other Labor Services	1,552	Population-based Services	
506 Social Services (Including Head Start)	15,855	Means-tested	
Total, Education, Training, Employment, and Social Services	87,945		
550 Health:			
551 Health Care Services, Public Health, Mental Health, and Substance Abuse	19,888	Population-based Services	
551 Health Care Services, Means-tested	190,204	Means-tested	
552 Health Research and Training	27,099	Public Good	
554 Consumer and Occupational Health and Safety	2,943	Population-based Services	
Total, Health	240,134		
570 Medicare:			
571 Medicare	269,360	Direct Benefit	
600 Income Security:			
601 General Retirement and Disability Insurance (Excluding Social Security) (Pension Benefit Guarantee, Black Lung and Disabled Minors, Railroad Retirement)	4,573	Direct Benefit	
602 Federal Employee Retirement and Disability: Total	88,729	Interest and Other Financial Obligations	
602 Federal Employee Retirement and Disability Due to Past Public Good Functions-Subtotal	23,868	Public Good	
602 Federal Employee Retirement and Disability, All Other: Sub-total	64,861	Interest and Other Financial Obligations	
603 Unemployment Compensation (Counted as State Expenditure)		Not Applicable	
604 Housing Assistance	36,568	Means-tested	
605 Food and Nutrition Assistance	46,012	Means-tested	
609 Other Income Security (Supplemental Security Income, Refundable Earned Income Credit, Temporary Assistance to Needy Families, Low Income Energy Assistance, Foster Care, Child Care and Child Development Block Grant)	109,963	Means-tested	
Total, Income Security	332,837		

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The Fiscal Cost of Low-Skill Households to the U.S. Taxpayer

Table A-1		SR 12
Federal Outlays—Fiscal Year 2004 (continued)		
Function and Subfunction	Millions of Dollars	Program Type
650 Social Security:		
651 Social Security	495,548	Direct Benefit
700 Veterans Benefits and Services:		
701 Income Security for Veterans	31,654	Public Good
702 Veterans Education, Training, and Rehabilitation	2,751	Public Good
703 Hospital and Medical Care for Veterans	26,783	Public Good
704 Veterans Housing	-1,980	Public Good
705 Other Veterans Benefits and Services	571	Public Good
Total, Veterans Benefits and Services	59,779	Public Good
750 Administration of Justice:		
751 Federal Law Enforcement Activities	19,090	Population-based Services
752 Federal Litigative and Judicial Activities	9,685	Population-based Services
753 Federal Correctional Activities	5,509	Population-based Services
754 Criminal Justice Assistance	11,251	Population-based Services
Total, Administration of Justice	45,535	Population-based Services
800 General Government:		
801 Legislative Functions	3,187	Population-based Services
802 Executive Direction and Management	510	Population-based Services
803 Central Fiscal Operations	9,339	Population-based Services
804 General Property and Records Management	228	Population-based Services
805 Central Personnel Management	217	Population-based Services
806 General Purpose Fiscal Assistance	7,675	Population-based Services
808 Other General Government	2,345	Population-based Services
809 Deductions for Offsetting Receipts	-1,679	Population-based Services
Total, General Government	21,822	Population-based Services
General Government in Support of Public Good Functions	5,870	Public Good
General Government, All Other	15,952	Population-based Services
900 Net Interest:		
901 Interest on Treasury Debt Securities (Gross)	321,679	Not Applicable
902 Interest Received by on-budget Trust Funds	-67,761	Not Applicable
903 Interest Received by off-budget Trust Funds	-86,228	Not Applicable
908 Other Interest	-4,473	Not Applicable
909 Other Investment Income	-2,972	Not Applicable
Total, Net Interest	160,245	
Net Interest Due to Past Public Good Functions	43,106	Public Good
Net Interest, All Other	117,139	Interest and Other Financial Obligations
TOTAL OUTLAYS WITH OFFSETTING RECEIPTS (Excludes Unemployment Insurance)	2,305,758	
Source: Budget Historical Tables for FY 2006 at www.whitehouse.gov/omb/budget/fy2006/pdf/hist.pdf ; Budget codes 401 details taken from FY2006 Budget Appendix, pp. 792-824		

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	State and Local Expenditures (in millions)	Expenditure Subtotals (in millions)	Federal Grants in Aid to States (in millions)	State and Local Expenditures Less Federal Grants (in millions)
Total Income Security, Health, and Social Services	532,154.07			
Means-tested Aid and Services		440,859.00	277,849.00	163,010.00
Other		91,295.07	9,835.00	81,460.07
Total Transportation	141,958.53			
Highways		118,178.67	30,689.00	87,489.67
Air Transportation (Airports)		18,030.57	2,958.00	15,072.57
Parking Facilities		1,335.99		1,335.99
Sea and Inland Port Facilities		4,046.65		4,046.65
Transit Subsidies		366.66	20.00	346.66
Total Education and Training	664,561.08			
Higher Education		173,085.92	482.00	172,603.92
Elementary and Secondary		452,054.91	20,522.00	431,532.91
Other Education		30,219.74	14,810.00	15,409.74
Libraries		9,200.51	136.00	9,064.51
Training			4,325.00	-4,325.00
Total Resources and Environment	109,673.71			
Natural Resources		23,298.71	742.00	15,875.71
Parks and Recreation		30,467.48	239.00	30,228.48
Sewage		35,534.72		35,534.72
Solid Waste Management		20,372.80		20,372.80
Justice and Public Safety	187,551.12		5,084.00	182,467.12
Veterans	1,503.74		454.00	1,049.74
General Government	67,748.37		9,015.00	58,733.37
Protective Inspection and Regulation	11,498.04			11,498.04
Unallocated Expenditure	100,142.99		14,712.00	85,430.99
Employment Security Administration	4,679.16		2,650.00	2,029.16
Interest on General Debt	81,723.06			81,723.06
Insurance Trust Expenditure				
Unemployment Compensation	43,277.64			43,277.64
Employee Retirement	137,537.44			137,537.44
Workers' Compensation	12,299.80			12,299.80
Other Insurance Trust	4,289.89			4,289.89
Utility Expenditure				
Water Supply	44,806.24			44,806.24
Electric Power	59,298.84			59,298.84
Gas Supply	6,716.95			6,716.95
Transit	44,236.69		7,777.00	36,459.69
Liquor Store Expenditure	4,672.90			4,672.90
TOTAL STATE AND LOCAL OUTLAYS	2,260,330.26			
TOTAL FEDERAL GRANTS IN AID TO THE STATES			408,980.00	1,851,350.26

The Fiscal Cost of Low-Skill Households to the U.S. Taxpayer

Table A-28						SR 12	
Removing User Fees and Charges from State and Local Expenditures							
State and Local Expenditures Net Federal Grants in Aid	Expenditures Net Federal Grants (from Table 2A) (in millions of dollars)	User Fees and Charges: Type	User Fees and Charges: Amount (in millions of dollars)	State and Local Expenditures Net Federal Grants in Aid and Net Fees and Charges	Final Expenditures (in millions of dollars)		
Total Income Security, Health, and Social Services				Total Income Security, Health, and Social Services			
Means-tested Aid and Services	163,080.00	Housing and Community Development	4,770	Means-tested Aid and Services	158,239.53		
Other Income, Health and Services	81,460.07	Hospitals	72,652	Other Income, Health and Services	8,808.79		
Total Transportation				Total Transportation			
Highways	82,489.62	Highways	8,991	Highways	78,498.76		
Air Transportation (Airports)	15,072.57	Air Transportation (Airports)	13,345	Air Transportation (Airports)	1,727.56		
Parking Facilities	1,335.99	Parking Facilities	1,540	Parking Facilities	-203.93		
Sea and Inland Port Facilities	4,046.65	Sea and Inland Port Facilities	3,107	Sea and Inland Port Facilities	939.84		
Transit Subsidies	346.66			Transit Subsidies	346.66		
Total Education and Training				Total Education and Training			
Higher Education	172,603.92	Institutions of Higher Education	21,780	Higher Education	100,823.83		
Elementary and Secondary	431,532.91	School Lunch Sales (Gross)	6,326	Elementary and Secondary	425,206.94		
Other Education	15,409.24	Other Education Charges	6,314	Other Education	9,095.42		
Libraries	9,064.51	Libraries		Libraries	9,064.51		
Training	-4,325.00			Training	-4,325.00		
Total Resources and Environment				Total Resources and Environment			
Natural Resources	15,875.71	Natural Resources	3,264	Natural resources	12,611.90		
Parks and Recreation	30,228.48	Parks and Recreation	2,982	Parks and recreation	22,246.96		
Sewage	35,534.72	Sewerage	29,792	Sewerage	5,742.49		
Solid Waste Management	20,372.80	Solid Waste Management	12,083	Solid waste management	8,289.80		
Justice and Public Safety	182,467.12			Justice and Public Safety	182,467.12		
Veterans	1,049.24			Veterans	1,049.24		
General Government	58,733.37			General Government	58,733.37		
Protective Inspection and Regulation	11,498.04			Protective Inspection and Regulation	11,498.04		
Administration and Unallocated Expenditures	85,430.99	Other Charges	46,696	Total Unallocated Expenditure	38,734.62		
Employment Security Administration	2,029.16			Employment Security Administration	2,029.16		
Interest on General Debt	81,723.06			Interest on General Debt	81,723.06		
Insurance Trust Expenditure				Insurance Trust Expenditure			
Unemployment Compensation	43,277.64			Unemployment Compensation	43,277.64		
Employee Retirement	137,537.44			Employee Retirement	137,537.44		
Workers' Compensation	12,299.80			Workers' Compensation	12,299.80		
Other Insurance Trust	4,289.89			Other Insurance Trust	4,289.89		
Utility Expenditure		Utility Revenue		Utility Expenditure			
Water Supply	44,806.24	Water Supply	36,087	Water Supply	8,719.05		
Electric Power	59,298.84	Electric Power	55,980	Electric Power	3,318.36		
Gas Supply	6,716.95	Gas Supply	6,506	Gas Supply	211.20		
Transit	36,459.69	Transit	9,783	Transit	26,676.34		
Liquor Store Expenditure	4,672.90	Liquor Store Revenue	5,698	Liquor Store Expenditure	-1,024.71		
Total State and Local Outlays	1,851,350.26	Total Fees and Charges	402,696	Total State and Local Outlays	1,448,653.82		

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Table A-2C			SR 12
State and Local Outlays Minus Federal Grants in Aid and User Fees and Charges			
State and Local Outlays Net Federal Grants in Aid and Net Fees and Charges	Net Expenditures (in millions of dollars)	Type of Program	
Total Income Security, Health, and Social Services			
Means-tested Aid and Services	158,239.53	Means-tested	
Other Income, Health and Services	8,808.39	Population-based	
Total Transportation			
Highways	78,498.76	Population-based	
Air Transportation (Airports)	1,727.56	Population-based	
Parking Facilities	203.93	Population-based	
Sea and Inland Port Facilities	939.84	Population-based	
Transit Subsidies	346.66	Population-based	
Total Education and Training			
Higher Education	100,823.83	Educational Benefits	
Elementary and Secondary	425,206.94	Educational Benefits	
Other Education	9,095.47	Direct Benefit	
Libraries	9,064.51	Population-based	
Training	4,325.00	Educational Benefits	
Total Resources and Environment			
Natural Resources	12,611.90	Population-based	
Parks and Recreation	22,246.96	Population-based	
Sewerage	5,742.49	Population-based	
Solid Waste Management	8,289.80	Population-based	
Justice and Public Safety	182,467.12	Population-based	
Veterans	1,049.74	Public Good	
General Government	58,733.37	Population-based	
Protective Inspection and Regulation	11,498.04	Population-based	
Administration and Unallocated Expenditure	38,734.62	Population-based	
Employment Security Administration	2,029.16	Direct Benefit	
Interest on General Debt	81,723.06	Interest and Other Costs due to Past Services	
Insurance Trust Expenditure			
Unemployment Compensation	43,277.64	Direct Benefit	
Employee Retirement	137,537.44	Interest and Other Costs due to Past Services	
Workers' Compensation	12,299.80	Direct Benefit	
Other Insurance Trust	4,289.89	Population-based	
Utility Expenditure			
Water Supply	8,719.05	Population-based	
Electric Power	3,318.36	Population-based	
Gas Supply	211.20	Population-based	
Transit	26,676.34	Population-based	
Liquor Store Expenditure	-1,024.71	Population-based	
TOTAL STATE AND LOCAL EXPENDITURES	1,448,653.82		
Summary			
Direct Benefit Total	57,606.60		
Means-tested Total	158,239.53		
Educational Benefits Total	530,801.24		
Population-based Services	481,696.22		
Interest and Other Financial Obligation Due to Past Activities	219,260.50		
Pure Public Good Expenditures	1,049.74		
TOTAL STATE AND LOCAL EXPENDITURES	1,448,653.82		

The Fiscal Cost of Low-Skill Households to the U.S. Taxpayer

Government Taxes and Revenues			
Federal Revenue Receipts FY 2004 From Taxes and Related Sources	Aggregate Revenue (in millions of dollars)	Revenue Sub-totals (in millions of dollars)	Average Federal Revenue per Household 114.79 million households (in dollars)
Individual Income Taxes	808,959		\$7,047
Corporate Income Taxes	189,371		\$1,650
Federal Insurance Contributions Act (FICA)	685,334		\$5,970
Old Age and Survivors Insurance		457,120	
Disability Insurance		72,625	
Hospital Insurance		150,589	
Unemployment Insurance - Federal Receipts	6,718		\$59
Other Retirement Receipts	8,620		\$75
Railroad Retirement		2,297	
Railroad Social Security Equivalent Account		1,729	
Federal Employees Retirement Employee Share		4,543	
Non-federal Employees Retirement		51	
Excise Taxes	69,855		\$609
Alcohol Excise Tax		8,105	
Tobacco Excise Tax		7,926	
Telephone Excise Tax		5,997	
Transportation Fuels Excise Tax		1,381	
Other Taxes		1,157	
Trust Fund Excise Taxes	45,289		\$395
Highway		34,711	
Airport		9,174	
Other		1,404	
Estate and Gift Tax	24,831		\$216
Customs Duties and Fees	21,083		\$184
Other Miscellaneous Receipts	12,913		\$112
Miscellaneous: Fees for Permits and Regulatory and Judicial Services		8,675	
Miscellaneous: Fines, Penalties, and Forfeitures		3,902	
Other Miscellaneous Federal Receipts		336	
TOTAL FEDERAL RECEIPTS	1,827,684		\$15,922
Note: Excludes \$12.6 billion in unemployment insurance receipts from state governments and \$19.6 billion in earnings of the Federal Reserve System.			
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Table A-3				SR 12
Government Taxes and Revenues (continued)				
State and Local Revenue From Taxes and Related Sources	Aggregate Revenue (in millions of dollars)	Revenue Sub-totals (in millions of dollars)	Average Revenue per Household (in dollars)	
Taxes				
Property	318,242		\$2,772	
General Sales	244,891		\$2,133	
Selective Sales	115,738		\$1,008	
Motor fuel		34,944		
Alcoholic beverage		4,986		
Tobacco products		12,626		
Public utilities		21,427		
Other selective sales		41,756		
Individual Income	215,215		\$1,875	
Corporate Income	33,716		\$294	
Motor Vehicle License	18,709		\$163	
Other Taxes	63,766		\$556	
Miscellaneous General Revenue	165,139		\$1,439	
Interest Earnings		53,194		
Special Assessments		6,453		
Sale of Property		1,960		
Lottery Receipts		45,466		
Other General Revenue		58,066		
Insurance Trust Revenue	66,024		\$575	
Unemployment Compensation		38,362		
Workers' Compensation		21,758		
Other Insurance Trust Revenue		5,904		
Employee Retirement Trust Revenue*	365,318		\$3,182	
Employee Contributions		30,786		
Earnings on Investments		315,554		
Other		18,974		
TOTAL STATE AND LOCAL REVENUE	1,606,758		\$13,997	
Note: Excludes \$796 billion in user fees and \$408 billion in federal grants to states and localities.				
TOTAL FEDERAL, STATE, AND LOCAL REVENUE From Taxes and Related Sources	3,434,442		\$29,919	
Note: Excludes intra-government transfers to retirement trust funds.				
Sources: Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006; U.S. Census, Survey of Governments, at www.census.gov/govs/states/0400usd_1.html				

The Fiscal Cost of Low-Skill Households to the U.S. Taxpayer

Table A-4 SR 12

Aggregate Government Expenditures

Low-skill group share of total program expenditures means the percentage of total expenditures received by households headed by persons who lack a high school diploma.
 Low-skill group share of beneficiaries means the percentage of all program beneficiaries who reside in households headed by persons who lack a high school diploma.

		Allocation Algorithm for Expenditures for Households Headed by Persons without a High School Degree	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Persons without a High School Degree (in percent)	Aggregate Expenditures Received by Households Headed by Persons without a High School Degree (in millions of dollars)	Average Expenditures Received by Households Headed by Persons without a High School Degree (in dollars)
Direct Benefits								
Social Security Benefits		Low-skill group share of total program expenditures in the CPS	495,548.0		495,548.0	20.72%	102,677.55	\$5,011
Medicare Benefits		Low-skill group share of total program expenditures in the CPS	210,360.0		210,360.0	24.92%	67,151.45	\$3,800
Other Cash Transfers and Benefits								
Unemployment Compensation		Low-skill group share of total program expenditures in the CPS		45,306.8	45,306.8	11.90%	5,796.04	\$305
Worker's Compensation		Low-skill group share of total program expenditures in the CPS		12,299.8	12,299.8	14.09%	1,733.04	\$98
Other Federal Retirement (Railroad and Black Lung Disability) (601)		Low-skill group share of total program expenditures in the CPS	6,573.0		6,573.0	3.00%	192.19	\$11
Agricultural Subsidies		Low-skill households are assumed to receive no benefits	11,186.0		11,186.0	0.00%	0.00	\$0
Mortgage Credit and Dependent Insurance		Low-skill households are assumed to receive no benefits	683.0		683.0	0.00%	0.00	\$0
Other Cash Transfers and Benefits Subtotal			783,350.0	57,606.6	840,956.6		177,155.27	\$10,026
Direct Benefits Total								
Education Benefits								
Higher Education		See text	25,264.0	100,823.8	126,087.8	5.37%	6,770.92	\$383
Elementary and Secondary		See text	34,257.0	425,206.9	459,463.9	17.78%	78,907.13	\$4,466
Training and Other Education		Low-skill group share of the total population		4,700.5	4,700.5	15.49%	738.95	\$40
Education Benefits Total			59,621.0	\$30,801.3	\$90,422.3		\$6,470.0	\$4,891

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Aggregate Government Expenditures (continued)						
	Allocation Algorithms for Expenditures for Households Headed by Persons without a High School Degree	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Persons without a High School Degree (in percent)	Average Expenditures per Household Headed by Persons without a High School Degree (in millions of dollars)
Means-tested Benefits						
Public Aid	Low-skill group share of total program expenditures in the CPS	6,485.0	10,082.0	16,567.0	38.49%	\$363
SSI	Low-skill group share of total program expenditures in the CPS	34,693.0	5,146.0	39,839.0	38.35%	\$365
ITTC	Low-skill group share of total program expenditures in the CPS	34,012.0		34,012.0	29.36%	\$565
Food Stamps	Low-skill group share of total program expenditures in the CPS	28,431.0	2,562.0	30,993.0	39.64%	\$695
School Lunch and Breakfast	Low-skill group share of total program expenditures in the CPS	8,531.0		8,531.0	29.01%	\$140
WIC	Low-skill group share of beneficiaries in the CPS	4,899.0		4,899.0	35.98%	\$100
Housing	Low-skill group share of total program expenditures in the CPS	38,881.0	0.8	38,881.8	40.89%	\$900
Energy	Low-skill group share of total program expenditures in the CPS	2,118.0	141.0	2,259.0	31.85%	\$41
Daycare	Low-skill group share of beneficiaries in the CPS	13,158.0	4,946.0	18,104.0	20.25%	\$207
Indian Health	Low-skill group share of beneficiaries in the CPS	2,706.0		2,706.0	23.44%	\$49
Training	Low-skill group share of beneficiaries in the CPS	6,131.0	876.0	7,007.0	21.81%	\$46
Medicaid/CHIP						
Medicaid: Elderly in General Population	Low-skill group share of total program expenditures in the CPS			26,403.0	41.97%	\$627
Medicaid: Non-elderly Disabled Adults in the General Population	Low-skill group share of total program expenditures in the CPS			108,146.0	29.75%	\$1,821
Medicaid: Non-elderly Able-bodied Adults in the General Population	Low-skill group share of total program expenditures in the CPS			35,860.6	35.27%	\$716

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The Fiscal Cost of Low-Skill Households to the U.S. Taxpayer

Aggregate Government Expenditures (continued)						
	Allocation Algorithms for Expenditures for Households Headed by Persons without a High School Degree	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Persons without a High School Degree (in percent)	Average Expenditures per Household for Households Headed by Persons without a High School Degree (in dollars)
Means-tested Benefits (continued)						
Medicaid: Children in the General Population including Children on SSI/AFDC	Low-skill group share of total program expenditures in the CPS			59,976.8	31.90%	\$1,085
Medicaid: Elderly in Institutional Care	See text			47,691.8	59.90%	\$1,617
Medicaid: Others in Institutional Care	See text			28,857.0	59.10%	\$965
Medicaid/CHIP Total		179,772.0	72,221.0	308,933.2		
Other Means-tested Aid (Foster Care, Social Services, Child Credit, Medical Care)	Allocated in proportion to the sum of total means-tested expenditures reported individually in the CPS	45,755.0	7,264.7	53,019.7	37.43%	\$1,123
Means-tested Benefit Total		406,512.0	158,239.5	\$64,751.5		\$1,963
Population-based and Government Support Services						
Transportation						
Highways, Buses, and Parking Facilities	Low-skill group share of gasoline consumption in the CEX	32,736.0	79,294.9	110,620.9	10.2%	\$645
Air Transportation (Airports)	Low-skill households are assumed to receive two percent of all expenditures	16,743.0	1,727.6	18,470.6	2.0%	\$21
Sea and Inland Port Facilities	Low-skill group share of total consumption in the CEX	6,898.0	939.8	7,837.8	8.5%	\$38
Other Federal Ground Transportation	Low-skill households are assumed to receive zero percent of expenditures	8,407.0		8,407.0	0.0%	\$0
Transit Subsidies	Low-skill group share of public transportation consumption in the CEX		27,023.0	27,023.0	4.90%	\$75
Other	Unallocated	242.0		242.0	0.0%	\$0
Transportation Subtotal				172,611.3		\$778.4

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Aggregate Government Expenditures (continued)						
	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Persons without a High School Degree (in percent)	Aggregate Expenditures Received by Households Headed by Persons without a High School Degree (in millions of dollars)	Average Expenditures per Household Headed by Persons without a High School Degree (17.67 million households in dollars)
Population-based and Government Support Services (continued)						
Justice, Police, and Public Safety						
Low-skill group share of the total population	45,535.0	182,462.1	228,002.1	15.49%	35,312.5	\$1,999
Resources, Recreation, and Environment						
Natural Resources						
Low-skill group share of the total population		12,611.9	12,611.9	15.49%	1,953.58	\$111
Parks and Recreation						
Low-skill group share of the total population	2,963.0	22,247.0	25,210.0	15.49%	3,906.02	\$221
Sewerage						
Low-skill group share of the total population		5,792.5	5,792.5	15.49%	889.51	\$50
Solid Waste Management						
Low-skill group share of the total population		8,289.8	8,289.8	15.49%	1,284.09	\$73
Public Utility Spending: Expenditures Exceeding User Charges						
Water Supply						
Low-skill group share of water consumption in the CEX		8,719.0	8,719.0	11.60%	1,081.41	\$57
Electric Power						
Low-skill group share of electricity consumption in the CEX		3,318.4	3,318.4	12.70%	421.43	\$24
Gas Supply						
Low-skill group share of natural gas consumption in the CEX		211.2	211.2	11.40%	24.08	\$1
Pollution Control and Abatement						
Low-skill group share of total consumption in the CEX	8,485.0		8,485.0	8.50%	721.23	\$41
Energy						
Low-skill group share of the total population	-166.0		-166.0	15.49%	-25.71	-\$1
Resources, Recreation, and Environment Sub-total			72,421.8			\$576

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The Fiscal Cost of Low-Skill Households to the U.S. Taxpayer

Aggregate Government Expenditures (continued)						
	Allocation Algorithms for Expenditures for Households Headed by Persons without a High School Degree	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Persons without a High School Degree (in percent)	Average Expenditures per Household for Households Headed by Persons without a High School Degree (in millions of dollars)
Population-based and Government Support Services (continued)						
Other Health Related						
General Health (Mental Health, Substance Abuse, Public Health)	Low-skill group share of the total population	19,888.0	8,808.4	28,696.4	15.49%	\$252
Consumer and Occupational Health	Low-skill group share of the total population	2,943.0		2,943.0	15.49%	\$26
Protective Inspection and Regulation	Low-skill group share of the total population		11,498.0	11,498.0	15.49%	\$101
Other Health Related Sub-total				43,137.4		\$328
Miscellaneous						
Other Labor Services	Low-skill group share of the total population	1,552.0		1,552.0	15.49%	\$14
Other Advancement of Commerce	Low-skill group share of the total population	8,660.0		8,660.0	15.49%	\$76
Postal Service	Low-skill group share of the total population	-4,070.0		-4,070.0	15.49%	-\$36
Community Development	Low-skill group share of the total population	13,754.0		13,754.0	15.49%	\$121
Libraries	Low-skill group share of the total population		9,064.5	9,064.5	15.49%	\$79
Miscellaneous Subtotal				28,960.5		\$254
General Government/Administrative Support						
General Government		21,022.0	58,733.4	80,555.4		
Support of Public Good Functions		5,870.1		5,870.1		
General Government Less Activities in Support of Public Good Functions	Low-skill group share of total direct, means tested and other population-based benefits	15,951.9	58,733.4	74,685.3	19.20%	\$615

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Aggregate Government Expenditures (continued)

	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Persons without a High School Degree (in percent)	Aggregate Expenditures Received by Households Headed by Persons without a High School Degree (in millions of dollars)	Average Expenditures per Household for Households Headed by Persons without a High School Degree 17.67 million households (in dollars)
Population-based and Government Support Services (continued)						
Unallocated Expenditures		37,709.9	37,709.9	19.28%	7,268.67	\$411
Other insurance trust		4,289.9	4,289.9	19.28%	826.89	\$47
General Government Net Public Good Support Sub-total			116,685.1			\$1,722.9
Population-based and Government Support Total	180,121.9	481,696.3	661,818.1		92,916.17	\$5,258
Interest and Other Financial Obligations Associated With Past Service						
Interest Payments on Government Debt	160,245.0	81,723.1	241,968.1	21.37%	51,696.51	\$2,976
Retirement Benefits for Former Government Employees	88,729.0	137,537.4	226,266.4	21.37%	48,341.84	\$2,736
Financial Obligations Associated with Past Services and Benefits Total	248,974.0	219,260.5	468,234.5			
Less Financial Obligations for Past Public Goods	66,974.0					
Total Net Financial Obligations: Interest and Other Financial Obligations Associated with Past Service Minus Obligations Associated with Past Public Goods	182,000.0	219,260.5	401,260.5	21.37%	85,729.34	\$4,852

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Table A-5

Tax and Revenue Algorithms and Calculations

LGSC (low-skill group share of consumption) means the share of consumption of a given item performed by households headed by persons without a high school diploma.
 LGSTC (low-skill group share of total consumption) means the share of total consumption of all items performed by households headed by persons without a high school diploma.

Federal Taxes and Revenues	Algorithms for Households Headed by Persons without a High School Degree	Aggregate Tax Receipts (in millions)	Consumption Share of Households Headed by Persons without a High School Degree in CEX (in percent)	Relevant Income Share Received by Households Headed by Persons without a High School Degree in CPS (in percent)	Aggregate Tax Paid by Households Headed by Persons without a High School Degree (in millions)	Taxes Paid per Household by Households Headed by Persons without a High School Diploma (in dollars)
Federal Individual Income Tax	CPS tax payment figures with adjustment for under-reporting	808,959.0		3.22%	26,048.5	\$1,474
FICA Taxes	CPS tax payments with adjustments	685,334.0		6.47%	44,381.1	\$2,509
Federal Corporate Income Tax on Workers	Incidence assumed to be 70 percent on workers and 30 percent on owners	189,371.0				
Federal Corporate Income Tax on Owners	70 percent of total tax times share of earned income in CPS			6.19%	11,205.4	\$664
Unemployment Insurance - Federal Receipts	20 percent of total tax times share of dividend, interest and rental income in CPS			4.15%	2,357.7	\$133
Highway Trust Fund	Average incidence falls 100 percent on workers; share of tax paid by households headed by person without a high school degree equals their share of earned income in the CPS	6,718.0		6.19%	435.8	\$24
Highway Trust Fund Taxes on Private Vehicle Drivers	Incidence assumed to fall half on private owners of motor vehicles; one quarter on owners of business; and one quarter on general consumers	34,711.0				
Highway Trust Fund Taxes on Business Owners	One-half of total tax times LGSC on gasoline in CEX		10.3%		1,762.6	\$108
Highway Trust Fund Taxes on Consumers	One-quarter of total tax times share of dividend, interest and rental income in CPS			4.15%	360.1	\$20
Highway Trust Fund Taxes on Airport and Airway Taxes	One-quarter of total tax times LGSTC in CEX		8.58%		737.6	\$42
	Taxes paid by households headed by persons without a high school degree assumed to be two percent of total	9,174.0	2%		183.5	\$10

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The Fiscal Cost of Low-Skill Households to the U.S. Taxpayer

Table A-5

Tax and Revenue Algorithms and Calculations (continued)

Federal Taxes and Revenues (continued)	Algorithms for Households Headed by Persons without a High School Degree	Aggregate Tax Payors (in millions)	Consumption Share of Households Headed by Persons with- out a High School Degree in CEX (in percent)	Relevant Income Share Received by Households Headed by Persons with- out a High School Degree in CEX (in percent)	Aggregate Tax Paid by Households Headed by Persons with a High School Degree (in millions)	Taxes Paid per Household by Households Headed by Persons without a High School Degree (in dollars)
Federal Excise Taxes: Alcohol	Total tax times LGSC of alcohol in CEX	8,105.0	6.4%		518.7	\$29
Federal Excise Taxes: Tobacco	Total tax times LGSC of tobacco in CEX	7926.0	17.6%		1,379.1	\$78
Federal Excise Taxes: Telephone	Total tax times LGSC of telephone in CEX	5,992.0	11.4%		683.7	\$39
Federal Excise Taxes: Transportation Fuels	Total tax times LGSC of fuels in CEX	1,381.0	11.2%		154.7	\$9
Federal Excise Taxes: All Other	Total tax times LGSTC in CEX	2,561.0	8.5%		212.7	\$12
Federal Retirement Receipts						
Railroad and Other Retirement Receipts	Total receipts times share of railroad earnings in CEX	4,072.0		1.1%	44.8	\$3
Federal Employees' Retirement Receipts	Total receipts times share of federal employee earnings in CEX	4,543.0		2.98%	135.4	\$8
Federal Gift and Estate Tax	Share paid by households headed by persons without a high school degree assumed to be minimal	24,831.0		0%	0.0	\$0
Customs Duties and Fees	Total tax times LGSTC in CEX	21,083.0	8.5%		1,792.1	\$101
Miscellaneous: Fees for Permits and Regulatory and Judicial Services	Not Applicable	8,675.0				N.A.
Miscellaneous: Fines, Penalties, and Forfeitures	Not Applicable	3,902.0				N.A.
Other Miscellaneous Federal Receipts	Not Applicable	316.0				N.A.
Federal Total Taxes and Revenues		1,827,684.0			\$9,363.5	\$5.057

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Tax and Revenue Algorithms and Calculations (continued)					
State and Local Taxes and Revenues	Algorithms for Households Headed by Persons without a High School Degree	Aggregate Tax Receipts (in millions)	Consumption Share of Households Headed by Persons without a High School Degree in CLS (in percent)	Relevant Income Share Received by Households Headed by Persons without a High School Degree in CPS (in percent)	Aggregate Tax Paid by Households Headed by Persons without a High School Degree (in millions)
State and Local Individual Income Taxes	CPS tax payment figures with under-reporting adjustment	215,214.7		4.02%	\$490
State and Local Corporate Income Tax	Incidence assumed to fall 70 percent on workers and 30 percent on owners	33,715.8			
State and Local Corporate Income Tax on Workers	70 percent of total tax times the share of total earnings received by households headed by persons without a high school degree as reported in the CPS			6.19%	\$83
State and Local Corporate Income Tax on Owners	30 percent of total tax times the share of total interest, dividends and rent received by households headed by persons without a high school degree as reported in the CPS			4.15%	\$24
Property Taxes	Incidence is assumed to fall half on business and half on consumers. The business portion is further assumed to fall half on consumers and half on owners.	318,242.5			
Property Taxes on Owner-occupied and Rented Dwellings	One-half of total tax times LCSCs of shelter costs		8.9%		\$401
Property Taxes on Owners	One-quarter of total tax times the share of total interest, dividends and rent received by households headed by persons without a high school degree as reported in the CPS			4.15%	\$107
Property Taxes on Consumers	One-quarter of total tax times LCSTC		8.5%		\$383
General Sales Taxes	Total Tax Times LCSTC: Exemptions	244,891.3	6.88%		\$953
Motor Fuel Tax	Incidence assumed to fall half on private owners of motor vehicles; one-quarter on owners of business; and one-quarter on general consumers.	34,943.6			

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The Fiscal Cost of Low-Skill Households to the U.S. Taxpayer

Table A-5

Tax and Revenue Algorithms and Calculations (continued)

State and Local Taxes and Revenues (continued)	Algorithms for Households Headed by Persons without a High School Degree	Aggregate Tax Receipts (in millions)	Consumption Share of Households Headed by Persons without a High School Degree in CPS (in percent)	Relevant Income Share Received by Households Headed by Persons without a High School Degree in CPS (in percent)	Aggregate Tax Paid by Households Headed by Persons without a High School Degree (in millions)	Taxes Paid per Household by Households Headed by Persons without a High School Degree (in dollars)
Motor Fuel Tax on Drivers of Personal Vehicles	One-half total tax times LGSC of gasoline		10.3%		1,956.8	\$111
Motor Fuel Tax on Consumers	One-quarter of total tax times LGSC		8.5%		777.5	\$44
Motor Fuel Tax on Business Owners	One-quarter of total tax on gasoline times share of interest, dividends and rents in the CPS going to households headed by persons without a high school degree			4.15%	362.5	\$21
Tobacco Tax	Total tax times LGSC of tobacco	12,625.8	18.2%		2,297.9	\$130
Alcohol Tax	Total tax times LGSC of alcohol	4,985.7	6.3%		308.4	\$17
Other Selective Sales Tax	Total tax times LGSC	41,755.9	8.5%		3,716.3	\$210
Motor Vehicle Licenses	Total tax times LGSC for licenses	18,209.0	5.3%		1,010.3	\$57
Public Utilities Tax	Total tax times LGSC for utilities	21,426.6	11.9%		2,699.7	\$153
Other General Taxes, State and Local (Mainly Estates, Stock Transactions, and Sovereignty Taxes)	Assume taxes paid by households headed by persons without a high school degree will be minimal	63,766.5	0%			\$0
Insurance: Trust Revenue						
Unemployment Compensation	Assume incidence falls 100 percent on workers; share of tax paid by households headed by persons without a high school degree equals their share of earned income in the CPS	38,361.5		6.19%	2,374.6	\$134
Workers' Compensation	Assume incidence falls 100 percent on workers; share of tax paid by households headed by persons without a high school degree equals their share of earned income in the CPS	21,757.9		6.19%	1,346.8	\$76
Other Insurance: Trust Revenue	Unknown	5,904.4				\$0

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Tax and Revenue Algorithms and Calculations (continued)					
State and Local Taxes and Revenues (continued)	Algorithms for Households Headed by Persons without a High School Degree	Aggregate Tax Receipts (in millions)	Consumption Share of Households Headed by Persons without a High School Degree in CEN (in percent)	Relevant Income Share Received by Households Headed by Persons without a High School Degree in CPS (in percent)	Aggregate Tax Paid by Households Headed by Persons without a High School Degree (in millions)
Employee Retirement Trust Revenue					Taxes Paid per Household by Households Headed by Persons without a High School Degree (in dollars)
Employee Contributions	Total contribution times the share of earnings of state and local employees going to households headed by person without a high school degree	30,785.8		4.18%	1,287.0
Earnings on Investments	Not applicable	315,553.9			N/A
Other	Not applicable	18,978.8			N/A
State and Local Other General Revenue					
Interest Earnings	Not applicable	53,194.3			N/A
Sale of Property	Not applicable	1,959.6			N/A
Special Assessments	Not applicable	6,452.7			N/A
Other General Revenue	Unknown	58,066.0			N/A
Lottery Receipts	Per capita expenditures assuming double normal use by households headed by persons without a high school degree	45,465.8		2.66%	12,130
Total State and Local Taxes and Revenues		1,606,757.9			81,874.9
TOTAL FEDERAL, STATE, AND LOCAL TAXES AND REVENUES		3,434,441.9			171,238.5
					\$9,689

58.12

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